Mantsopa Local Municipality
Financial statements
for the year ended 30 June 2016
Auditor-General of South Africa (AGSA)

General Information

Legal form of entity	A municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Mantsopa municipal area.
Mayoral committee	
Councillors	Clr S.D Ntsepe (Executive Mayor)
	Clr M.A Majara (Speaker)
	Clr M.A Malakane
	Clr J Machakela
	Clr M.C Chomane
	Clr P.N Nakalebe
	Clr P.P Raboko
	Clr N.J Thaise
	Clr D.T Molefe
	Clr K.I Tigeli
	Clr A.L Kouveldt
	Clr G.M Seoe
	Clr Y.J Jacobs
	Clr D Holmes
	Clr B.M Sani
	Clr T Halse
	Clr D.J Hattingh
	Clr L.P Moletsane
Grading of local authority	3
Chief Finance Officer (CFO)	K.D Matsie
Accounting Officer	S.M Selepe
Business address	38 Joubert Street LADYBRAND 9745
Postal address	Private Bag X11 LADYBRAND 9745
Bankers	ABSA Bank
Auditors	Auditor-General of South Africa (AGSA)
Attorneys	Thulo Attorneys, 75 Fontein Street, Ficksburg Morobane Inc, 21 Reid Street, Westdene, Bloemfontein
Telephone number	(051) 924 0654
Fax number	(051) 924 0020
Website	www.mantsopa.co.za

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Mantsopa Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page x.

The financial statements set out on pages 5 to 79, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

S.M Selepe
Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the mantsopa municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1 023 045 687 and that the municipality's total assets exceed its liabilities by R 1 023 045 687.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
S.M Selepe	RSA

8. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

9. Retirement benefit obligation

Management performed an actuarial valuation of the Employee Benefits of the employer's liability arising from the post-retirement healthcare subsidy ("PRHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Inventories	8	3 896 260	4 069 303
Other receivables from exchange transactions	9	9 727 597	4 686 170
Other receivables from non-exchange transactions	10	1 212 153	1 206 638
Receivables from exchange transactions	11	62 965 825	36 430 940
Receivables from non-exchange transactions	11	12 079 079	5 708 779
Current portion of long-term receivables	7	6 076	6 010
Cash and cash equivalents	12	889 344	7 197 621
		90 776 334	**59 305 461**
Non-Current Assets			
Investment property	3	62 573 405	53 027 783
Property, plant and equipment	4	1 025 604 177	1 015 130 840
Other financial assets	5	1 462 452	1 391 845
Long-term receivables	7	190 495	196 571
		1 089 830 529	**1 069 747 039**
Total Assets		**1 180 606 863**	**1 129 052 500**
Liabilities			
Current Liabilities			
Other financial liabilities	14	1 880 619	2 360 920
Payables from exchange transactions	16	118 815 369	92 900 767
VAT payable	17	113 447	302 661
Consumer deposits	18	1 438 662	1 342 976
Unspent conditional grants and receipts	13	872 758	223 401
		123 120 855	**97 130 725**
Non-Current Liabilities			
Other financial liabilities	14	4 407 933	3 925 642
Employee benefit obligation	6	25 172 000	39 823 000
Provisions	15	4 860 388	4 828 925
		34 440 321	**48 577 567**
Total Liabilities		**157 561 176**	**145 708 292**
Net Assets		**1 023 045 687**	**983 344 208**
Accumulated surplus		1 023 045 687	983 344 208

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from exchange transactions			
Service charges	20	94 602 816	87 747 924
Other income	21	6 384 809	2 179 723
Interest received	22	19 983 031	22 762 188
Dividends received	22	32 354	52 301
Total revenue from exchange transactions		**121 003 010**	**112 742 136**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	12 729 373	12 566 527
Licences or permits		-	877
Transfer revenue			
Government grants & subsidies	24	144 020 150	119 556 708
Public contributions and donations	25	2 000	10 000
Fines, penalties and forfeits		522 550	535 620
Total revenue from non-exchange transactions		**157 274 073**	**132 669 732**
Total revenue	19	**278 277 083**	**245 411 868**
Expenditure			
Employee related costs	26	(78 534 214)	(68 411 382)
Remuneration of councillors	27	(5 797 391)	(5 523 627)
Increase / (decrease) in provisions	28	19 145 000	(3 776 603)
Depreciation and amortisation	29	(50 444 422)	(49 355 953)
Impairment loss		(1 013 605)	(842 759)
Finance costs	30	(14 511 835)	(7 541 125)
Lease rentals on operating lease		(188 114)	-
Debt Impairment	31	(42 820 437)	(60 961 546)
Repairs and maintenance		(4 001 170)	(8 170 074)
Bulk purchases	32	(37 497 338)	(34 232 144)
Contracted services		(985 322)	(3 132 263)
Transfers and subsidies		(1 149 349)	(996 804)
General expenses	33	(29 316 003)	(36 061 881)
Total expenditure		**(247 114 200)**	**(279 006 161)**
Operating surplus (deficit)		**31 162 883**	**(33 594 293)**
Loss on disposal of assets and liabilities		(1 029 485)	(10 501)
Fair value adjustments	34	9 568 081	2 809 069
		8 538 596	**2 798 568**
Surplus (deficit) for the year		**39 701 479**	**(30 795 725)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**691 052 306**	**691 052 306**
Changes in net assets		
Prior period errors (refer to Note 42)	313 170 742	313 170 742
Prior year adjustments (previously recorded)	9 916 885	9 916 885
Net income (losses) recognised directly in net assets	323 087 627	323 087 627
Surplus for the year	(30 795 725)	(30 795 725)
Total recognised income and expenses for the year	292 291 902	292 291 902
Total changes	292 291 902	292 291 902
Balance at 01 July 2015	**983 344 208**	**983 344 208**
Changes in net assets		
Surplus for the year	39 701 479	39 701 479
Total changes	39 701 479	39 701 479
Balance at 30 June 2016	**1 023 045 687**	**1 023 045 687**

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Cash receipts from customers		35 596 751	41 074 922
Grants		116 781 203	114 051 029
Interest income		19 983 031	22 762 188
Dividends received		32 354	52 301
Other receipts		-	48 611 206
		172 393 339	226 551 646
Payments			
Employee costs		(80 805 899)	(72 850 801)
Suppliers		(53 728 897)	(41 130 802)
Finance costs		(10 175 835)	(7 487 767)
Other payments		(5 263 168)	(16 541 877)
		(149 973 799)	(138 011 247)
Net cash flows from operating activities	37	**22 419 540**	**88 540 399**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(28 687 666)	(87 699 138)
Proceeds from sale of financial assets		(48 149)	(217)
Proceeds from sale of long-term receivables		6 010	5 955
Net cash flows from investing activities		**(28 729 807)**	**(87 693 400)**
Cash flows from financing activities			
Repayment of other financial liabilities		1 990	162 337
Finance lease payments		-	(1 151 090)
Net cash flows from financing activities		**1 990**	**(988 753)**
Net increase/(decrease) in cash and cash equivalents		**(6 308 277)**	**(141 754)**
Cash and cash equivalents at the beginning of the year		7 197 621	7 339 375
Cash and cash equivalents at the end of the year	12	**889 344**	**7 197 621**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	114 268 000	790 000	**115 058 000**	94 602 816	**(20 455 184)**	Note 53
Rental of facilities and equipment	1 259 000	(32 000)	**1 227 000**	1 373 778	**146 778**	Note 53
Other income - (rollup)	601 000	2 530 000	**3 131 000**	5 011 031	**1 880 031**	Note 53
Interest received - investment	25 571 000	(35 000)	**25 536 000**	19 983 031	**(5 552 969)**	Note 53
Dividends received	20 000	-	**20 000**	32 354	**12 354**	Note 53
Total revenue from exchange transactions	**141 719 000**	**3 253 000**	**144 972 000**	**121 003 010**	**(23 968 990)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	13 850 000	(856 000)	**12 994 000**	12 729 373	**(264 627)**	Note 53
Transfer revenue						
Government grants & subsidies	120 207 000	(3 000 000)	**117 207 000**	144 020 150	**26 813 150**	Note 53
Public contributions and donations	-	-	**-**	2 000	**2 000**	
Fines	574 000	16 000	**590 000**	522 550	**(67 450)**	
Total revenue from non-exchange transactions	**134 631 000**	**(3 840 000)**	**130 791 000**	**157 274 073**	**26 483 073**	
Total revenue	**276 350 000**	**(587 000)**	**275 763 000**	**278 277 083**	**2 514 083**	
Expenditure						
Personnel	(73 028 000)	(2 183 000)	**(75 211 000)**	(78 534 214)	**(3 323 214)**	Note 53
Remuneration of councillors	(6 290 000)	-	**(6 290 000)**	(5 797 391)	**492 609**	Note 53
Increase / (decrease) in provisions	-	-	**-**	19 145 000	**19 145 000**	Note 53
Depreciation and amortisation	(4 251 000)	-	**(4 251 000)**	(50 444 422)	**(46 193 422)**	Note 53
Impairment loss	-	-	**-**	(1 013 605)	**(1 013 605)**	
Finance costs	-	-	**-**	(14 511 835)	**(14 511 835)**	Note 53
Lease rentals on operating lease	-	-	**-**	(188 114)	**(188 114)**	Note 53
Bad debts written off	(50 820 000)	2 998 000	**(47 822 000)**	(42 820 437)	**5 001 563**	Note 53
Repairs and maintenance	(8 281 000)	(556 000)	**(8 837 000)**	(4 001 170)	**4 835 830**	Note 53
Bulk purchases	(37 476 000)	-	**(37 476 000)**	(37 497 338)	**(21 338)**	Note 53
Contracted Services	(3 000 000)	-	**(3 000 000)**	(985 322)	**2 014 678**	Note 53
Transfers and Subsidies	(10 020 000)	900 000	**(9 120 000)**	(1 149 349)	**7 970 651**	Note 53
General Expenses	(36 579 000)	(3 770 000)	**(40 349 000)**	(29 316 003)	**11 032 997**	Note 53
Total expenditure	**(229 745 000)**	**(2 611 000)**	**(232 356 000)**	**(247 114 200)**	**(14 758 200)**	
Operating surplus	**46 605 000**	**(3 198 000)**	**43 407 000**	**31 162 883**	**(12 244 117)**	
Loss on disposal of assets	-	-	**-**	(1 029 485)	**(1 029 485)**	Note 53
Fair value adjustments	-	-	**-**	9 568 081	**9 568 081**	Note 53
	-	**-**	**-**	**8 538 596**	**8 538 596**	
Surplus before taxation	**46 605 000**	**(3 198 000)**	**43 407 000**	**39 701 479**	**(3 705 521)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	3 896 260	**3 896 260**	Note 53
Other receivables from exchange transactions	-	-	**-**	9 727 597	**9 727 597**	Note 53
Other receivables from non-exchange transactions	5 000 000	-	**5 000 000**	1 212 153	**(3 787 847)**	Note 53
Receivables from exchange and non-exchange transactions	81 870 000	132 646 000	**214 516 000**	75 044 904	**(139 471 096)**	Note 53
Current portion of long-term receivables	6 000	-	**6 000**	6 076	**76**	Note 53
Cash and cash equivalents	7 371 000	14 045 000	**21 416 000**	889 344	**(20 526 656)**	Note 53
	94 247 000	**146 691 000**	**240 938 000**	**90 776 334**	**(150 161 666)**	
Non-Current Assets						
Investment property	27 271 000	-	**27 271 000**	62 573 405	**35 302 405**	Note 53
Property, plant and equipment	1 297 848 000	(8 217 000)	**1 289 631 000**	1 025 604 177	**(264 026 823)**	Note 53
Other financial assets	1 213 000	-	**1 213 000**	1 462 452	**249 452**	Note 53
Long-term receivables	197 000	-	**197 000**	190 495	**(6 505)**	Note 53
	1 326 529 000	**(8 217 000)**	**1 318 312 000**	**1 089 830 529**	**(228 481 471)**	
Total Assets	**1 420 776 000**	**138 474 000**	**1 559 250 000**	**1 180 606 863**	**(378 643 137)**	
Liabilities						
Current Liabilities						
Other financial liabilities	1 338 000	-	**1 338 000**	1 880 619	**542 619**	Note 53
Payables from exchange transactions	45 000 000	(11 863 000)	**33 137 000**	118 815 370	**85 678 370**	Note 53
VAT payable	-	-	**-**	113 447	**113 447**	Note 53
Consumer deposits	1 180 000	-	**1 180 000**	1 438 662	**258 662**	Note 53
Unspent conditional grants	-	-	**-**	872 758	**872 758**	
	47 518 000	**(11 863 000)**	**35 655 000**	**123 120 856**	**87 465 856**	
Non-Current Liabilities						
Other financial liabilities	3 686 000	2 601 000	**6 287 000**	4 407 933	**(1 879 067)**	Note 53
Employee benefit obligation	43 659 000	-	**43 659 000**	25 172 000	**(18 487 000)**	Note 53
Provisions	-	406 000	**406 000**	4 860 388	**4 454 388**	Note 53
	47 345 000	**3 007 000**	**50 352 000**	**34 440 321**	**(15 911 679)**	
Total Liabilities	**94 863 000**	**(8 856 000)**	**86 007 000**	**157 561 177**	**71 554 177**	
Net Assets	**1 325 913 000**	**147 330 000**	**1 473 243 000**	**1 023 045 686**	**(450 197 314)**	
Reserves						
Other NDR	-	42 513 000	**42 513 000**	-	**(42 513 000)**	Note 53
Accumulated surplus	1 325 913 000	104 817 000	**1 430 730 000**	1 023 045 686	**(407 684 314)**	Note 53
Total Net Assets	**1 325 913 000**	**147 330 000**	**1 473 243 000**	**1 023 045 686**	**(450 197 314)**	

The main reason for the above adjustments and/or changes between the approved and final budget is the reallocation and changes in the forecast of income and expenditure needs.

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24 : Presentation of budget information

The comparison of budget and actual amounts present separately for each level of legislative oversight:
- the approved and final budget amounts, and;
- the actual amounts on a comparable basis.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

1.5 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
• Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure assets		
• Electricity	Straight line	7 - 50 years
• Roads	Straight line	8 - 50 years
• Stormwater	Straight line	30 - 50 years
• Water and sanitation	Straight line	10 - 50 years
Community assets		
• Buildings	Straight line	20 - 50 years
• Recreational facilities	Straight line	7 - 50 years
• Security measures	Straight line	3 - 5 years
Other property, plant and equipment		
• Other equipment	Straight line	2 - 10 years
• Fences and gates	Straight line	15 - 25 years
• Paving	Straight line	50 years
Other equipment	Straight line	3 - 10 years
Other leased Assets - Computer equipment and copiers	Straight line	3 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

1.7 Heritage assets (continued)

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.8 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

1.8 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

1.8 Financial instruments (continued)

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.9 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.10 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

1.13 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

1.13 Employee benefits (continued)

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

1.13 Employee benefits (continued)

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;

1.13 Employee benefits (continued)

- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

1.16 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.16 Revenue from non-exchange transactions (continued)

Fines

Revenue arising from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and;
- the amount of the revenue can be measured reliably.

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public prosecutor can decide whether to waive the revenue amount collected from spot fines and summonses, he revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Assessment rates

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably, and;
- there has been compliance with the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims", are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Value added tax

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2) of the Value-Added-Tax Act no. 89 of 1991.

Accounting Policies

1.24 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.27 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts that are non-cancelable or only cancelable at significant cost, contracts should relate to something other than the business of the municipality.

1.28 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with investment income over receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the surplus/(deficit) for the period.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects the surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.29 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Accounting Policies

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality needs to asses the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of the financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow of economic benefits. Revenue should only be recognised once evidence of the probability of the flow of economic benefits becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds are stated, should be recognised on a time proportion basis, i.e over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

Directive 11: Changes in measurement bases following the initial adoption of Standards of GRAP

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Notes to the Financial Statements

2. New standards and interpretations (continued)

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	62 573 405	-	62 573 405	53 027 783	-	53 027 783

Reconciliation of investment property - 2016

	Opening balance	**Fair value adjustments**	**Total**
Investment property	53 027 783	9 545 622	62 573 405

Reconciliation of investment property - 2015

	Opening balance	**Fair value adjustments**	**Total**
Investment property	50 397 003	2 630 780	53 027 783

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the valuations was 30 June 2016. Valuations were performed by an independent valuer, Mr D. Smit. Mr D.Smit is not connected to the municipality and has recent experience in location and category of the investment property being valued.

The basis used to value the investment properties were the direct comparable method of valuation.

Direct comparable method of valuation (International Valuation Standards) - 7th Edition

"This is the approach or method preferred by our courts and consist of finding suitable recent sales of comparable properties within the same area and using them to help arrive at a market related value for the subject property."

Amounts recognised in surplus and deficit for the year.

	2016	2015
Rental revenue from investment property	1 340 020	1 129 789

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	348 583 035	-	348 583 035	348 583 035	-	348 583 035
Infrastructure	873 199 775	(317 751 208)	555 448 567	843 228 240	(273 611 227)	569 617 013
Community	90 757 054	(27 311 150)	63 445 904	79 495 119	(23 552 923)	55 942 196
Other property, plant and equipment	19 783 804	(9 558 584)	10 225 220	18 450 913	(7 422 933)	11 027 980
Capital work in progress	47 901 451	-	47 901 451	29 960 616	-	29 960 616
Total	**1 380 225 119**	**(354 620 942)**	**1 025 604 177**	**1 319 717 923**	**(304 587 083)**	**1 015 130 840**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	348 583 035	-	-	-	-	-	348 583 035
Infrastructure	569 617 013	16 661 679	(358 067)	14 374 179	(44 846 237)	-	555 448 567
Community	55 942 196	12 543 456	(639 774)	-	(3 386 369)	(1 013 605)	63 445 904
Other property, plant and equipment	11 027 980	1 440 630	(31 576)	-	(2 211 814)	-	10 225 220
Capital work in progress	29 960 616	32 315 014	-	(14 374 179)	-	-	47 901 451
	1 015 130 840	**62 960 779**	**(1 029 417)**	**-**	**(50 444 420)**	**(1 013 605)**	**1 025 604 177**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	348 583 035	-	-	-	-	348 583 035
Infrastructure	546 434 887	21 706 292	44 715 792	(42 811 027)	(428 931)	569 617 013
Community	59 722 947	-	-	(3 366 923)	(413 828)	55 942 196
Other property, plant and equipment	14 065 340	140 642	-	(3 178 002)	-	11 027 980
Capital work in progress	8 824 204	65 852 204	(44 715 792)	-	-	29 960 616
	977 630 413	**87 699 138**	**-**	**(49 355 952)**	**(842 759)**	**1 015 130 840**

The useful life's of some of the assets have been re-assessed to reflect their remaining useful life's as determined by management.

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Figures in Rand	2016	2015

5. Other financial assets

Designated at fair value		
Listed shares Old Mutual shares	151 378	152 362
Unlisted shares OVK shares	1 213 666	1 142 075
Nedbank Investment	97 408	97 408
	1 462 452	**1 391 845**

Non-current assets		
Designated at fair value	1 462 452	1 391 845

6. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

Total members		
In-service (employee) members	53	299
Continuation members (e.g : retirees, widows, orphans)	14	14
	67	**313**

The municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme;
- KeyHealth Medical Scheme;

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation	(25 172 000)	(39 823 000)

Net expense recognised in the statement of financial performance

Current service cost	(3 488 000)	(3 331 000)
Past service cost	-	(1 342 000)
Interest cost	(4 073 000)	(3 579 000)
Actuarial (gains) losses	21 684 000	407 000
Experience gains / (losses)	-	3 070 000
Benefit payments	528 000	378 000
	14 651 000	**(4 397 000)**

Figures in Rand	2016	2015

6. Employee benefit obligations (continued)

Key assumptions used

The economic assumptions used at the reporting date are shown in the table below:

Maximum monthly subsidy increase	6,67 %	6,90 %
Discount rates used	10,04 %	9,45 %
Healthcare cost inflation	8,67 %	8,90 %
Net discount rate	1,26 %	0,51 %

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the statement of financial position date. Therefore the discount rate and inflation assumptions were based on the yields taken from the government zero coupon bond yield curves.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the nominal yield on the South African government zero-coupon bond yield curve with a term of 20 years, the expected duration of the liability based on the current membership data, as at 30 June 2016.

Health care cost inflation

The South African bond market has seen large foreign capital inflows over the last 5 to 10 years. More recently, the South African bond market has seen large outflows due to political and economical reasons.

These large in- and outflows have distorted bond yields, and have also distorted the market's expectation of future inflation as measured by the difference between yields on fixed and index-linked government bonds.

The long-term inflation rate implied from the government bond yields is 8.24%, which is measured as the real difference between:
- the nominal yield of the South African government zero coupon bond yield curve (10.04% p.a) at a term of 20 years, and
- the real yield of the South African government zero coupon bond yield curve (1.81% p.a) at the same duration.

This inflation expectation of 8.08% p.a is realistic in the long-term, given the Reserve Bank's mandate of keeping inflation between 3% and 6% p.a.

Hence, inflation was estimated as the average of our house-view long term inflation estimate of 5.25% p.a, and the implied inflation derived from the fixed interest and index-linked government bonds. The best estimate of inflation is therefore assumed to be 6.67% p.a.

Maximum subsidy increase

According to the Salary and Wage Agreement 2014 the maximum employer contribution to an accredited medical scheme for an individual employee shall escalate at the same rate as the annual percentage increase in salaries and wages, which is agreed to from time to time by the Parties to the Council. However, in the last few years this annual percentage increase was less than salary inflation and therefore it has been assumed that it will increase annually in line with CPI inflation. This is in line with previous valuation.

Figures in Rand	2016	2015

6. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

Included in defined contribution plan information above, is the following plans which are a Multi-Employer Funds and are a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

- South African Local Authorities Provident Fund
- National Fund for Municipal Workers
- Municipal Employees Pension Fund
- South African Municipal Workers Union Provident Fund
- Municipal Councillors Pension Fund

Defined benefit plans

The following are defined benefit plans:

- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

These are not treated as a defined benefit plan as defined by IAS 19, but as a defined contribution plan. These funds are multi employer plans and actuarial valuations done by actuaries could not be provided due to the lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in IAS 19, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in a sound financial position. The estimated liabilities of the fund is R7 418 million (2009: R6 568 million) which is adequately financed by assets of R7 110 million (2009: R6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R1 531 million.

7. Long-term receivables

Long-term receivables consist of the following:

	2016	2015
Loan: Buiteklub	190 495	196 571
Loan: Buiteklub	6 076	6 010
	196 571	**202 581**
Included in Non-current assets	190 495	196 571
Included in Current assets	6 076	6 010

8. Inventories

	2016	2015
Consumable stores	330 717	386 366
Spare parts	162 317	302 567
Water	33 930	11 074
Unsold properties-held-for-sale	3 369 296	3 369 296
	3 896 260	**4 069 303**

Figures in Rand	2016	2015

9. Other receivables from exchange transactions

Insurance debtor	21 228	-
Eskom debtor	17 086	-
Prepaid electricity receivables	9 015 627	4 054 530
Housing allowance debtor	631 640	631 640
Impairment - housing allowance debtor	(631 640)	-
Department of water affairs	673 656	-
	9 727 597	**4 686 170**

10. Other receivables from non-exchange transactions

Fines	970 756	582 756
Impairment - Fines	(877 206)	(485 506)
Prepayments - Deposits	286 910	282 309
Sundry debtors	831 693	827 079
	1 212 153	**1 206 638**

11. Receivables from exchange and non-exchange transactions

Gross balances		
Rates	27 642 959	19 923 380
Electricity	20 615 439	19 230 530
Water	66 912 348	56 193 087
Sewerage	75 275 945	66 726 602
Refuse	53 982 672	49 549 681
Other	8 180 622	5 572 769
	252 609 985	**217 196 049**

Less: Allowance for impairment		
Rates	(15 563 880)	(14 214 601)
Electricity	(11 057 850)	(16 349 196)
Water	(47 119 977)	(41 444 759)
Sewerage	(57 366 087)	(56 437 559)
Refuse	(42 095 894)	(41 875 604)
Other	(4 361 393)	(4 734 611)
	(177 565 081)	**(175 056 330)**

Net balance		
Rates	12 079 079	5 708 779
Electricity	9 557 589	2 881 334
Water	19 792 371	14 748 328
Sewerage	17 909 858	10 289 043
Refuse	11 886 778	7 674 077
Other	3 819 229	838 158
	75 044 904	**42 139 719**

Included in above is receivables from exchange transactions		
Electricity	9 557 589	2 881 334
Water	19 792 371	14 748 328
Sewerage	17 909 858	10 289 043
Refuse	11 886 778	7 674 077
Other	3 819 229	838 158
	62 965 825	**36 430 940**

Figures in Rand	2016	2015

11. Receivables from exchange and non-exchange transactions (continued)

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	12 079 079	5 708 779
Net balance	**75 044 904**	**42 139 719**

Rates		
Current (0 -30 days)	909 545	9 802 391
31 - 60 days	671 739	645 491
61 - 90 days	611 687	569 141
91 - 120 days	550 403	553 482
121 - 150 days	520 865	4 037 074
> 150 days	8 814 840	(9 898 800)
	12 079 079	**5 708 779**

Electricity		
Current (0 -30 days)	3 485 027	3 131 112
31 - 60 days	1 152 916	1 464 107
61 - 90 days	818 002	785 973
91 - 120 days	790 800	516 773
121 - 150 days	626 210	2 898 503
> 150 days	2 684 634	(5 915 134)
	9 557 589	**2 881 334**

Water		
Current (0 -30 days)	4 343 495	1 840 016
31 - 60 days	4 032 937	1 144 069
61 - 90 days	1 743 322	3 550 746
91 - 120 days	1 580 933	1 098 644
121 - 150 days	1 235 194	10 928 138
> 150 days	6 856 490	(3 813 285)
	19 792 371	**14 748 328**

Sewerage		
Current (0 -30 days)	2 055 275	1 032 350
31 - 60 days	1 647 937	1 063 783
61 - 90 days	1 539 669	1 214 304
91 - 120 days	1 443 314	1 238 595
121 - 150 days	1 338 670	10 012 654
> 150 days	9 884 993	(4 272 643)
	17 909 858	**10 289 043**

Refuse		
Current (0 -30 days)	1 301 829	977 106
31 - 60 days	996 468	978 708
61 - 90 days	928 605	1 032 492
91 - 120 days	868 565	1 029 209
121 - 150 days	805 678	7 953 494
> 150 days	6 985 633	(4 296 932)
	11 886 778	**7 674 077**

Figures in Rand	2016	2015

11. Receivables from exchange and non-exchange transactions (continued)

Other		
Current (0 -30 days)	145 659	37 165
31 - 60 days	146 661	57 161
61 - 90 days	86 913	87 063
91 - 120 days	85 278	54 990
121 - 150 days	81 471	663 562
> 150 days	3 273 247	(61 783)
	3 819 229	**838 158**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	11 250 421	7 096 753
31 - 60 days	9 493 707	4 210 587
61 - 90 days	5 836 514	6 641 752
91 - 120 days	5 630 149	4 073 217
121 - 150 days	5 169 488	33 544 534
> 150 days	191 594 429	147 409 455
	228 974 708	202 976 298
Less: Allowance for impairment	(168 852 968)	(169 145 085)
	60 121 740	**33 831 213**

Industrial / commercial		
Current (0 -30 days)	1 547 391	703 379
31 - 60 days	747 919	934 935
61 - 90 days	576 048	208 234
91 - 120 days	541 988	239 384
121 - 150 days	455 347	1 427 947
> 150 days	10 792 510	4 817 576
	14 661 203	8 331 455
Less: Allowance for impairment	(8 712 113)	(5 911 244)
	5 949 090	**2 420 211**

National and provincial government		
Current (0 -30 days)	1 244 048	388 468
31 - 60 days	224 471	207 795
61 - 90 days	206 371	389 733
91 - 120 days	198 123	179 091
121 - 150 days	193 550	1 520 946
> 150 days	6 904 686	4 656 193
	8 971 249	**7 342 226**

Total		
Current (0 -30 days)	14 044 684	6 734 669
31 - 60 days	10 466 097	5 353 318
61 - 90 days	6 618 933	7 239 719
91 - 120 days	6 370 260	4 491 692
121 - 150 days	5 818 385	36 493 427
> 150 days	209 291 626	156 883 224
	252 609 985	217 196 049
Less: Allowance for impairment	(177 565 081)	(175 056 330)
	75 044 904	**42 139 719**

Figures in Rand	2016	2015

11. Receivables from exchange and non-exchange transactions (continued)

Less: Allowance for impairment		
> 150 days	(177 565 081)	(175 056 330)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(175 056 330)	(208 238 915)
Contributions to allowance	(32 551 304)	(72 279 634)
Debt impairment written off against allowance	30 042 553	105 462 219
	(177 565 081)	**(175 056 330)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 138	3 595
Bank balances	631 992	82 828
Short-term deposits	254 214	7 111 198
	889 344	**7 197 621**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
ABSA Bank - Cheque account - 2020000050	622 180	(74 973)	608 863	622 180	(74 973)	608 863
FNB - Cheque account - 62402356530	9 813	157 384	29 276	9 813	157 801	29 276
ABSA Bank - Investment 9264892325	1 000	2 826 582	-	1 000	2 826 582	-
ABSA Bank - Investment 9230571400	26 701	25 192	-	26 701	25 192	-
ABSA Bank - Investment 9278783703	224 401	1 977 587	-	224 401	1 977 587	-
ABSA Bank - Investment 9264892561	1 000	2 010 029	-	1 000	2 010 029	-
ABSA Bank - Investment 9277963448	1 000	271 697	-	1 000	271 697	-
Standard Bank Account	111	111	-	111	111	-
Total	**886 206**	**7 193 609**	**638 139**	**886 206**	**7 194 026**	**638 139**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Energy Efficiency Demand Grant (EEDG)	-	223 401
Integrated National Electrification Grant (INEG)	872 758	-
	872 758	**223 401**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 24 for reconciliation of grants from National/Provincial Government.

Figures in Rand	2016	2015

14. Other financial liabilities

At amortised cost		
DBSA Loan	6 288 552	6 286 562
Non-current liabilities		
At amortised cost	4 407 933	3 925 642
Current liabilities		
At amortised cost	1 880 619	2 360 920

Mantsopa Local Municipality entered into a loan agreement with DBSA on 26 May 2010 in terms of which DBSA borrowed a capital amount of R2 730 000 to Mantsopa Local Municipality. The loan agreement reached its repayment maturity. The parties agreed to the following terms:

- The total outstanding debt as at 31 July 2016 amounted to R6 288 552;
- The debt obligation will be repaid in 4 equal payments; and
- The first payment is due on 30 November 2016 and the debt obligation will not accrue interest during this time.

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	1 698 925	189 463	1 888 388
Long service awards	3 130 000	(158 000)	2 972 000
	4 828 925	**31 463**	**4 860 388**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	1 528 470	170 455	-	1 698 925
Long service awards	3 213 000	-	(83 000)	3 130 000
	4 741 470	**170 455**	**(83 000)**	**4 828 925**

Figures in Rand	2016	2015

15. **Provisions (continued)**

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation, in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), whereby the municipality is required to execute the environmental management program to restore the landfill sites at Excelsior, Ladybrand, Tweespruit and Hobhouse to comply with the permit requirements.

The provision was determined by an independent expert as at 30 June 2016 and approximates the discounted expected future cash flows using reasonable estimation techniques. The discount rate used for the landfill sites is based on a bond rate that matures as close as possible to the future date of the rehabilitation.

The final rehabilitation of the landfill sites are expected to be over a period of 19 years, being the estimated useful lives of landfill sites. No uncertainties were listed in the engineer's report. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these, assets, which influence the provision for future costs.

Key assumptions used:

The following assumptions were used to calculate the provision:

- Total area expected to be rehabilitated: 56 000 square metres
- Average rate per square metre: R97.55 (excl. VAT) escalating every year by 6.5%

The area to be rehabilitated can be reconciled to the different sites as follows:

- Ladybrand 18 000
- Tweespruit / Thaba Patchoa 17 000
- Hobhouse 9 000
- Excelsior 12 000

Solid waste sites:

Each of the landfill sites have adequate footprint and airspace available for the disposal of solid waste until 2035.

Ladybrand:

The site presently used at Ladybrand is an informal site which has not been designed and constructed as a proper landfill site. As indicated in paragraph 4 of this report, it is a condition of the Waste Management License issued on 15 March 1994 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Tweespruit / Thaba Patchoa:

As indicated in paragraph 4 of this report, it is a condition of the Waste Management License issued on 23 April 2015 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Hobhouse:

Hobhouse does not have a designed landfill site. Refuse is dumped in a disused dolerite quarry without any engineered cells. No proper landfill activities can take place at the site due to the absence of proper cells and the non-availability of material to cover compacted refuse. It is a condition of the Waste Management License issued on 10 April 2015 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Excelsior:

The site presently used at Excelsior is an informal site which has not been designed and constructed as a proper landfill site. As a condition of the Waste Management License issued on 22 March 1994 a properly designed facility should be constructed as soon as possible as a matter of urgency.

Figures in Rand	2016	2015

15. Provisions (continued)

Long service award provision

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality may become entitled to in future. GRAP 25 valuation was done by management for the 2015/2016 financial year and membership data used can be summarised as follow:

The amounts recognised in the statement of financial position are as follows:

As at 30 June		
Present value long service awards liability - wholly unfunded	(3 130 000)	(3 213 000)
Service cost	(436 000)	(512 000)
Interest cost	(264 000)	(260 000)
Actuarial gains / (losses) - change in financial assumptions	100 000	309 000
Actuarial gains / (losses) - change in eligibility criterion	610 000	-
Actuarial gains / (losses) - experience variance	(90 000)	322 000
Benefit payments	238 000	224 000
	(2 972 000)	**(3 130 000)**

The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

Key assumptions used:

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial variable	Assumed value June 2016	Assumed value 30 June 2015
• Discount rate	8.85 %	8.35%
• CPI (Consumer price inflation)	6.15%	6.05%

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the statement of financial position date. Therefore the discount rate and inflation assumptions were base don the government zero coupon bond yield curves.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The discounted term of the liabilities is approximately 7 years.

Salary inflation

Escalation in the general level of salaries as a result of inflation and real salary increases. The general trend is for salaries to increase faster than the increase in inflation. A salary escalation rate of 8.15% p.a, which includes real growth of approximately 1% p.a and a further 1% allowance for merit increases was used.

Demographic assumptions

The demographic assumptions for the year 30 June 2016 valuation are shown in the tables below, and compared to those used for the previous valuation.

30 June 2016

• Pre-retirement mortality:	SA85-90 L rated down 1 year for males and females
• Assumed retirement age:	63 years for males and females

15. Provisions (continued)

30 June 2015
- Pre-retirement mortality: SA85-901 L rated down 1 year for males and females
- Assumed retirement age: 63 years for males and females

Withdrawal assumption

In the absence of credible past withdrawal data for this particular scheme, the withdrawal assumptions have been set in line with those generally observed in the South African market:

The annual withdrawal rates for the valuation, differentiated by age:

	Age	Males and Females
•	20	13.30%
•	25	13.30%
•	30	10.90%
•	35	8.20%
•	40	5.80%
•	45	4.10%
•	50	2.90%
•	55	0.00%
•	60+	0.00%

16. Payables from exchange transactions

	2016	2015
Trade payables	101 399 437	83 140 388
Consumer debtors with credit balances	6 962 893	2 972 709
Accrued leave pay	9 022 202	5 116 020
Accrued bonus	1 430 837	1 359 312
Other accrued expenses	-	295 338
Other payables	-	17 000
	118 815 369	**92 900 767**

17. VAT payable

	2016	2015
Tax refunds payables	113 447	302 661

18. Consumer deposits

	2016	2015
Electricity	1 394 329	1 315 943
Other	44 333	27 033
	1 438 662	**1 342 976**

Guarantees held in lieu of electricity and other deposits.

19. Revenue

	2016	2015
Service charges	94 602 816	87 747 924
Other income	6 384 809	2 179 723
Interest received	19 983 031	22 762 188
Dividends received	32 354	52 301
Property rates	12 729 373	12 566 527
Licences or permits	-	877
Government grants & subsidies	144 020 150	119 556 708
Public contributions and donations	2 000	10 000
Fines, Penalties and Forfeits	522 550	535 620
	278 277 083	**245 411 868**

Notes to the Financial Statements

Figures in Rand	2016	2015

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	94 602 816	87 747 924
Other income - (rollup)	6 384 809	2 179 723
Interest received	19 983 031	22 762 188
Dividends received	32 354	52 301
	121 003 010	**112 742 136**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	12 729 373	12 566 527
Licences and permits	-	877
Transfer revenue		
Government grants & subsidies	144 020 150	119 556 708
Public contributions and donations	2 000	10 000
Fines, penalties and forfeits	522 550	535 620
	157 274 073	**132 669 732**

20. Service charges

Sale of electricity	34 987 064	33 665 760
Sale of water	31 943 003	25 556 180
Sewerage and sanitation charges	17 263 085	18 106 205
Refuse removal	10 409 664	10 419 779
	94 602 816	**87 747 924**

21. Other income

Administration fees	3 697	2 005
Advertisements	93 600	310
Building plans	137 748	70 706
Commission received	105 394	74 660
Connections	340 972	194 594
Discount received	-	830
Dog licenses	280	772
Garden refuse	11 526	16 427
Grave sales	95 538	70 317
Insurance recoveries	2 363 672	7 798
Other sales	1 297	-
Penalties	26 360	10 026
Photo copies	6 729	4 297
Private telephone cost recovery	-	1 033
Private work	819	976
Refunds	-	160
Rental of properties, facilities and equipment	1 373 778	1 124 999
Sale of land	341 165	202 669
Subdivisioning	800	-
Tender documents	131 200	25 450
Testmeters	750	2 315
Training cost recover	1 302 234	334 725
Valuation lists	43 850	22 099
Valuation roll	3 400	12 555
	6 384 809	**2 179 723**

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Investment revenue

Dividend revenue		
Listed financial assets - Local	32 354	52 301
Interest revenue		
Bank	719 653	547 632
Interest received - arrear consumer accounts	19 263 378	22 214 556
	19 983 031	**22 762 188**
	20 015 385	**22 814 489**

23. Property rates

Rates received

Residential	7 722 480	6 771 993
Commercial	5 006 893	5 794 534
	12 729 373	**12 566 527**

24. Government grants and subsidies

Operating grants		
Equitable Share	66 074 599	64 961 001
Municipal Systems Improvement Grant (MSIG)	930 000	934 000
Expanded Public Works Programme (EPWP) Grant	1 000 000	1 001 000
Financial Management Grant (FMG)	1 675 000	1 600 000
COGTA Grant	-	10 767 211
Equitable Share: Councillors subsidy	3 099 400	2 960 000
Grant In-kind: Provincial Treasury	-	443 187
	72 778 999	**82 666 399**
Capital grants		
Municipal Infrastructure Grant (MIG)	19 428 000	19 578 000
Energy Efficiency Demand Grant (EEDG)	223 401	6 220 077
Integrated National Electrification Grant (INEG)	2 127 242	1 000 000
Thabo Mofutsanyana	5 054 586	-
Human Settlement	-	5 549 595
Grant In-kind: Thusanong, Mandela, Flamingo and New Platberg Parks	6 933 206	-
Grant In-kind: Various Roads	7 315 005	-
Grant In-kind: Electrification of Platberg	1 652 632	-
Grant In-kind: New Platberg Sewer Pump Station	6 071 186	-
Grant In-kind: Buy Back Centre	7 246 498	-
Department of Water Affairs (DWAF) Grant	15 189 395	4 542 637
	71 241 151	**36 890 309**
	144 020 150	**119 556 708**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 418 (2015: R 334), which is funded from the grant.

Figures in Rand	2016	2015

24. Government grants and subsidies (continued)

Energy Efficiency Demand Grant (EEDG)

Balance unspent at beginning of year	223 401	2 443 478
Current year receipts	-	4 000 000
Conditions met - transferred to revenue	(223 401)	(6 220 077)
	-	**223 401**

The grant provided to municipalities target measures that reduce the electricity consumption of existing public infrastructure. Typical projects include traffic lights, street lights, high mast lights, building infrastructure such as lights and HVAC, water infrastructure equipment, such as energy efficient pumps, and installation of energy management systems, such as building management systems and ripple controls.

Municipal Infrastructure Grant (MIG)

Current year receipts	19 428 000	19 578 000
Conditions met - transferred to revenue	(19 428 000)	(19 578 000)
	-	-

In terms of the MFMA Circular No.48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to the National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The entity reports at year-end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

Financial Management Grant (FMG)

Current year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 675 000)	(1 600 000)
	-	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

The funds were used to promote and support reforms to financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems and implementation of the Municipal Management Act. The grant was also used for the salaries of the financial interns.

Expanded Public Works Programme (EPWP) Grant

Current year receipts	1 000 000	1 001 000
Conditions met - transferred to revenue	(1 000 000)	(1 001 000)
	-	-

The grant was used in respect of job creation projects and programmes.

Municipal Systems Improvement Grant (MSIG)

Current year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

The funds were used to assist the municipality to reform the function and stabilise institutional and governance systems as required by the Municipal Systems Act of 2000.

Notes to the Financial Statements

Figures in Rand	2016	2015

24. Government grants and subsidies (continued)

COGTA

Balance unspent at beginning of year	-	3 285 602
Current year receipts	-	7 481 609
Conditions met - transferred to revenue	-	(10 767 211)
	-	-

Integrated National Electrification Grant (INEG)

Current year receipts	3 000 000	1 000 000
Conditions met - transferred to revenue	(2 127 242)	(1 000 000)
	872 758	-

The grant was allocated for the construction and upgrading of electricity networks within the municipal boundaries. All conditions attached the grant were met.

Equitable Share

Current year receipts	69 173 999	67 921 001
Conditions met - transferred to revenue	(69 173 999)	(67 921 001)
	-	-

Department of Water Affairs (DWAF) Grant

Current-year receipts	15 189 395	4 542 637
Conditions met - transferred to revenue	(15 189 395)	(4 542 637)
	-	-

The grant was allocated for the construction and upgrading of water networks within the municipal boundaries. All conditions attached the grant were met.

Grant In-kind: Provincial Treasury

Current year receipts	-	443 187
Conditions met - transferred to revenue	-	(443 187)
	-	-

Thabo Mofutsanyana (District Municipality)

Current-year receipts	5 054 586	-
Conditions met - transferred to revenue	(5 054 586)	-
	-	-

Human Settlement

Current-year receipts	-	5 549 595
Conditions met - transferred to revenue	-	(5 549 595)
	-	-

Notes to the Financial Statements

Figures in Rand	2016	2015

24. Government grants and subsidies (continued)

Grant In-kind: Thusanong, Mandela, Flamingo and New Platberg Parks (Department of Environmental Affairs)

Current year receipts	6 933 206	-
Conditions met - transferred to revenue	(6 933 206)	-
	-	-

During the year the Thusanong, Mandela, Flamingo and New Platberg Parks have been constructed and upgraded on behalf of the Municipality. The related assets have been capitalised and as the Municipality is not responsible for the payment of the project, it has been accounted for as a donated asset and grant in-kind received.

Grant In-kind: Buy Back Centre (Department of Environmental Affairs)

Current year receipts	7 246 498	-
Conditions met - transferred to revenue	(7 246 498)	-
	-	-

Grant In-kind: Electrification of Platberg (Department of Mineral and Energy)

Current-year receipts	1 652 632	-
Conditions met - transferred to revenue	(1 652 632)	-
	-	-

During the year the Platberg: Electrification Project has been constructed on behalf of the Municipality. The related asset has been capitalised and as the Municipality is not responsible for the payment of the project, it has been accounted for as a donated asset and grant in-kind received.

Grant In-kind: New Platberg Sewer Pump Station

Current-year receipts	6 071 186	-
Conditions met - transferred to revenue	(6 071 186)	-
	-	-

During the year the Platberg: Sewer Pump Station Project has been constructed on behalf of the Municipality. The related asset has been capitalised and as the Municipality is not responsible for the payment of the project, it has been accounted for as a donated asset and grant in-kind received.

Grant In-kind: Various Roads (Free State Department of Public Works)

Current-year receipts	7 315 005	-
Conditions met - transferred to revenue	(7 315 005)	-
	-	-

Conditions still to be met - remain liabilities (see note 13).

During the year various Roads Projects have been conducted on behalf of the Municipality. The related assets have been capitalised and as the Municipality is not responsible for the payment of the project, it has been accounted for as a donated asset and grants in-kind received.

25. Public contributions and donations

Donation of assets	2 000	10 000

Figures in Rand	2016	2015

26. Employee related costs

Basic	42 274 806	39 582 634
Medical aid - company contributions	5 991 996	6 208 441
UIF	498 906	457 666
Other payroll levies	27 535	26 028
Leave pay provision charge	5 049 805	1 189 903
Pension fund - company contributions	6 658 973	5 812 840
Overtime payments	10 005 178	6 903 209
Long-service awards	198 675	58 846
Car allowance	3 582 466	3 518 958
Housing benefits and allowances	424 050	124 816
Holiday Bonus	3 110 585	3 966 116
Other allowances	711 238	561 925
	78 534 213	**68 411 382**

Remuneration of municipal manager - Mr S Selepe

Annual Remuneration	971 376	971 376
Car Allowance	150 994	150 994
Contributions to UIF, Medical and Pension Funds	203 331	199 894
Industrial council	87	81
	1 325 788	**1 322 345**

Remuneration of chief finance officer - Mr K Matsie

Annual Remuneration	720 402	635 695
Car Allowance	187 480	187 480
Contributions to UIF, Medical and Pension Funds	138 620	129 937
Industrial council	87	81
	1 046 589	**953 193**

Remuneration of director technical services - Mr. N Raliapeng

Annual Remuneration	673 305	585 652
Car Allowance	172 985	172 985
Contributions to UIF, Medical and Pension Funds	126 200	118 307
Industrial council	87	81
	972 577	**877 025**

Remuneration of director corporate services - Ms PP Moloi

Annual Remuneration	688 729	610 643
Car Allowance	210 211	210 211
Contributions to UIF, Medical and Pension Funds	61 720	59 452
Industrial council	87	81
	960 747	**880 387**

Remuneration of director community services - Ms B Sebolai

Annual Remuneration	672 861	585 418
Car Allowance	172 287	172 286
Contributions to UIF, Medical and Pension Funds	128 694	119 683
Industrial council	87	81
	973 929	**877 468**

Figures in Rand	2016	2015

27. Remuneration of councillors

	2016	2015
Executive Major	783 540	740 497
Speaker	630 878	596 399
Councillors	4 382 973	4 186 731
	5 797 391	**5 523 627**

In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of a separate Council owned vehicle for official duties.

2016	Annual remuneration	Travel allowance	Medical aid contribution	Pension fund contribution	Cellphone allowance	Total
Mayor - SD Ntsepe	555 012	73 825	48 109	82 126	24 468	783 540
Full time speaker - MA Majara	458 606	59 060	20 356	68 388	24 468	630 878
Part time EXCO member - MA Malakane	189 560	76 318	20 356	27 934	24 468	338 636
Part time EXCO member - J Machakela	190 041	69 774	-	28 173	22 429	310 417
Part time Sec 79 committee - MC Chomane	193 303	71 230	-	28 684	24 468	317 685
Part time Sec 79 committee - PN Nakalebe	167 141	71 230	31 383	23 463	24 468	317 685
Part time Sec 79 committee - PP Raboko	193 303	71 230	-	28 684	24 468	317 685
Part time Sec 79 committee - NJ Thaise	202 430	62 103	-	28 684	24 468	317 685
Part time Sec 79 committee - DT Molefe	170 617	71 230	26 304	25 066	24 468	317 685
Part time Sec 79 committee - KI Tigeli	170 617	71 230	26 304	25 066	24 468	317 685
Part time councillor - AL Kouveldt	171 736	63 596	-	25 518	24 468	285 318
Part time Sec 79 committee - GM Seoe	193 303	71 230	-	28 684	24 468	317 685
Part time Sec 79 committee - YJ Jacobs	179 095	63 596	-	26 195	24 468	293 354
Part time councillor - D Holmes	11 715	4 491	-	1 757	2 039	20 002
Part time councillor - BM Sani	150 626	55 503	-	22 351	24 468	252 948
Part time councillor - T Halse	150 626	55 503	-	22 351	24 468	252 948
Part time councillor - DJ Hattingh	112 706	42 032	-	16 785	18 351	189 874
Part time councillor - LP Moletsane	134 428	42 032	-	18 831	20 390	215 681
	3 594 865	**1 095 213**	**172 812**	**528 740**	**405 761**	**5 797 391**

28. Increase / (decrease) in provisions

	2016	2015
Employee retirement benefit obligations	(18 724 000)	3 776 603
Long service award provision	(421 000)	-
	(19 145 000)	**3 776 603**

29. Depreciation and amortisation

	2016	2015
Property, plant and equipment	50 444 422	49 355 953

Figures in Rand	2016	2015

30. Finance costs

Bank	4 901	2 254
Post-Employment medical aid subsidies	4 073 000	-
Long service bonuses	263 000	-
Finance leases	-	53 358
Non-current borrowings	1 990	1 371 610
Rehabilitation of landfill sites	189 464	170 455
Trade and other payables	9 979 480	5 943 448
	14 511 835	**7 541 125**

31. Debt impairment

Contributions to debt impairment provision	42 820 437	60 961 546

32. Bulk purchases

Electricity	36 047 569	32 921 214
Water	1 449 769	1 310 930
	37 497 338	**34 232 144**

33. General expenses

Advertising	313 796	133 066
Assessment rates & municipal charges	1 521 786	1 513 868
Auditors remuneration	5 492 094	4 860 189
Bank charges	380 517	356 403
Chemicals	1 340 220	1 517 194
Cleaning	53 407	47 356
Community development and training	46 392	178 355
Conferences and seminars	193 890	7 045
Consulting and professional fees	2 095 215	10 404 175
Donations	3 339	200
Entertainment	209 142	279 188
Flowers	1 203 251	-
Fuel and oil	2 184 175	2 441 769
Grant expenditure	-	231 625
Hire	248 635	472 691
Insurance	1 428 375	1 233 631
Licenses	693 411	710 436
Magazines, books and periodicals	-	215 001
Medical expenses	-	23 925
Other expenses	3 426 158	1 303 314
Pest control	3 061	-
Postage and courier	86 665	86 851
Printing and stationery	378 548	446 024
Research and development costs	100 041	174 778
Security (Guarding of municipal property)	116 400	349 200
Skills development levy	644 723	541 081
Subscriptions and membership fees	40 804	1 718 911
Telephone and fax	2 132 916	2 075 869
Training	842 412	521 747
Travel - local	3 953 362	3 797 805
Uniforms	88 221	400 506
Valuation and transfer costs	95 047	19 678
	29 316 003	**36 061 881**

Included in other expenses are the following material expenses:

Figures in Rand	2016	2015

33. General expenses (continued)

Electrification expenses	2 127 242	-
General sewerage expenditure	-	537 000
	2 127 242	**537 000**

34. Fair value adjustments

Investment property (Fair value model)	9 545 622	2 630 780
Other financial assets		
• Old Mutual shares	(984)	-
• OVK shares	23 443	178 289
	9 568 081	**2 809 069**

35. Auditors' remuneration

Fees	5 492 094	4 860 189

36. Operating lease

During the financial year, the Municipality had the following significant leasing arrangements:

- Rental of telephone system at a monthly cost of R74 910 (excl VAT):
- Rental of copiers at a monthly rental amount of R28 801 (excl VAT). This rental term covered 7 months in the 2016 financial year.

37. Cash generated from operations

Surplus (deficit)	39 701 479	(30 795 725)
Adjustments for:		
Depreciation and amortisation	50 444 422	49 355 953
Gain on sale of assets and liabilities	1 029 485	10 501
Fair value adjustments	(9 568 081)	(2 809 069)
Finance costs - Finance leases	-	53 358
Impairment deficit	1 013 605	842 759
Debt impairment	42 820 437	60 961 546
Movements in retirement benefit assets and liabilities	(14 651 000)	4 397 000
Movements in provisions	31 463	(1 794 575)
Prior year adjustments (previously included in net assets)	-	9 916 854
Other movement on Property, plant and equipment	(34 273 180)	37 109 000
Changes in working capital:		
Inventories	173 043	2 353
Other receivables from exchange transactions	(5 041 427)	3 262 168
Consumer debtors	(75 725 622)	(65 002 154)
Other receivables from non-exchange transactions	(5 515)	1 174 449
Payables from exchange transactions	25 914 602	41 389 644
VAT	(189 214)	(14 109 048)
Unspent conditional grants and receipts	649 357	(5 505 679)
Consumer deposits	95 686	81 064
	22 419 540	**88 540 399**

Notes to the Financial Statements

38. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Other financial assets	1 462 452	1 462 452
Trade and other receivables from exchange transactions	9 727 597	9 727 597
Receivables from exchange transactions	62 965 825	62 965 825
Receivables from non-exchange transactions	12 079 079	12 079 079
Cash and cash equivalents	889 344	889 344
Long term receivables	190 495	190 495
Current portion of long term receivables	6 076	6 076
	87 320 868	**87 320 868**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	6 288 552	6 288 552
Trade and other payables from exchange transactions	118 815 370	118 815 370
Taxes and transfers payable (non-exchange)	113 447	113 447
Consumer deposits	1 438 662	1 438 662
	126 656 031	**126 656 031**

2015

Financial assets

	At amortised cost	Total
Other financial assets	1 391 845	1 391 845
Trade and other receivables from exchange transactions	4 069 303	4 069 303
Receivables from exchange transactions	36 430 940	36 430 940
Receivables from non-exchange transactions	5 708 779	5 708 779
Cash and cash equivalents	7 197 621	7 197 621
Long term receivables	196 571	196 571
Current portion of long term receivables	6 010	6 010
	55 001 069	**55 001 069**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	92 900 767	92 900 767
Taxes and transfers payable (non-exchange)	302 661	302 661
Borrowings	6 286 562	6 286 562
Consumer deposits	1 342 073	1 342 073
Unspent conditional grants and receipts	223 401	223 401
	101 055 464	**101 055 464**

Notes to the Financial Statements

Figures in Rand	2016	2015

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	23 335 984	29 361 296
• Other financial assets	10 446 415	13 388 467
	33 782 399	**42 749 763**

Total capital commitments		
Already contracted for but not provided for	33 782 399	42 749 763

This committed expenditure relates to infrastructure and will be financed by government grants and retained surpluses.

40. Related parties

Relationships

Members of key management:	
S.D. Ntsepe	Executive Mayor
M.A. Majara	Speaker
M.A. Malakane	Councillor
M.C. Chomane	Councillor
P.N. Nakalebe	Councillor
P.P. Raboko	Councillor
N.J. Thaise	Councillor
D.T. Molefe	Councillor
K.I. Tigeli	Councillor
G.M. Seoe	Councillor
Y.J. Jacobs	Councillor
B.M. Sani	Councillor
T. Halse	Councillor
D. Hatting	Councillor
L.P. Moletsane	Councillor
A.L. Kouveldt	Councillor
S.M. Selepe	Municipal Manager
K.D. Matsie	Chief Financial Officer
P.P. Moloi	Director: Corporate Services
B.S. Sebolai	Director: Community Services
N.J. Raliapeng	Director: Technical Services

Related party transactions

Property sales to related parties		
Raliapeng N - Senior Manager	-	4 000
Majara MA - Councillor	-	24 313
Matsunyane P - Councillor	-	1 000
May K - Supervisor	2 378	-
Thaisi NJ - Councillor	28 000	-
Pesa M - Assistant Manager (PMU)	32 996	-
Jaggers R - ICT Technician	40 000	-
Molefe TD - Councillor	30 000	-
Chauke KJ - Internal Auditor	35 000	-
Makoae MA - Manager Internal Audit	35 000	-
Matsie D - Chief Financial Officer	-	27 497
Sebolai BS - Director: Community Services	-	27 500
Spannenberg DJ - MFIP Technical Advisor	66 827	-
Moloi PP - Director: Corporate Services	25 428	-

41. Prior period errors

1. Property, plant and equipment - Incorrect useful life in respect to movable assets were used in depreciation expense calculation in previous financial years. During the prior year it was identified that movable assets were being depreciated using incorrect useful lives. In the current year the Municipality corrected this error, retrospectively, from the date of each individual asset's purchase. This correction specifically relates to the depreciation adjustment prior to 1 July 2014 and for the financial year ending 30 June 2015.

2. Property, plant and equipment - Motor vehicle purchased in the 2014 financial year, which was not capitalised during the financial year 30 June 2014. The necessary adjustment has been made retrospectively for the cost price and accumulated depreciation.

3. Property, Plant and Equipment - Leased assets not correctly accounted for in the previous financial year. The Municipality repaid leased assets in full in the previous financial year, whereafter the assets were purchased by the Municipality.

4. Prior year expenditure not recorded - During the current financial year management identified a number of expenditure items (which was paid for during the year), which was not provided for during the prior financial year. A number of credit notes were also identified, which related to the previous financial year.The creditor's provision account was therefore corrected.

5. Investment property, Land (Property, plant and equipment) and Property-held-for-sale (Inventory) - During the financial year management embarked on a process whereby all land owned by the Municipality was verified, correctly cost and classified in terms of the accounting standards.

6. Service charges corrections - During the financial years ending 30 June 2014 and 2015, a number of incorrect charges were made to consumer debtor accounts. Management inspected all debtor accounts (and integrated reports) throughout the year and a number of corrections were made.

7. RD cheque's cleared - In the current year management identified a number of transactions within the RD Cheque Account which should have been cleared. These transactions relate to the period prior to 1 July 2014.

8. Operational grants incorrectly capitalised - Management identified expenditure (funded by grants), which was incorrectly capitalised and not expensed. These grants relate to operational expenditure and the misposting resulted in Work-in-progress being overstated.

9. Property, plant and equipment - Management performed a full asset verification during the financial year, which included all infrastructure and community assets. Based on the results, the prior balances and amounts was corrected retrospectively.

10. Provision for rehabilitation of landfill sites - During the current financial year, it was found that the provision for the landfill sites were not in accordance with GRAP 19. Based on the recalculation performed, retrospective adjustments were processed to correct the provision.

11. Compensation Commissioner creditor - During the current financial year, management became aware of the fact that the Compensation Commissioner has not been provided for. The necessary adjustment was made retrospectively.

The correction of the errors resulted in adjustments as follows:

Figures in Rand	2016	2015

41. Prior period errors (continued)

Statement of financial position		
Property, plant and equipment (1)	5 532 199	5 532 199
Accumulated (surplus) deficit (opening balance) (1)	(5 532 199)	(4 472 508)
Property, plant and equipment (2)	60 719	60 719
Accumulated (surplus) deficit (opening balance) (2)	(60 719)	(60 719)
Property, plant and equipment (3)	1 059 691	1 059 691
Accumulated (surplus) deficit (opening balance) (3)	(1 059 691)	504 461
Creditors from exchange transactions (4)	(1 753 391)	(1 753 391)
Accumulated (surplus) deficit (opening balance) (4)	1 753 391	-
Property, plant and equipment (5)	282 380 345	282 380 345
Investment property (5)	20 228 210	20 228 210
Inventory (5)	3 369 296	3 369 296
Accumulated (surplus) deficit (opening balance) (5)	(305 977 851)	(305 977 851)
Consumer debtors (6)	(1 453 931)	(1 453 931)
Consumer deposit (6)	(903)	(903)
Creditors from exchange transactions (6)	(1 528)	(1 528)
Accumulated (surplus) deficit (opening balance) (6)	1 453 028	-
Other receivables from exchange transactions (7)	(4 634)	(4 634)
Accumulated (surplus) deficit (opening balance) (7)	4 634	4 634
Property, plant and equipment (8)	(3 166 668)	(3 166 668)
Accumulated (surplus) deficit (opening balance) (8)	3 166 668	-
Property, plant and equipment (9)	94 915 729	94 915 729
Accumulated (surplus) deficit (opening balance) (9)	(94 915 729)	(3 048 094)
Provisions (10)	3 675 977	3 675 977
Accumulated (surplus) deficit (opening balance) (10)	(3 675 977)	(1 882 030)
Creditors from exchange transactions (11)	(2 432 237)	(2 432 237)
Accumulated (surplus) deficit (opening balance) (11)	2 432 237	1 761 366
Statement of Financial Performance		
Depreciation expense (1)	-	(1 059 691)
Bulk purchases (4)	-	(78 705)
General expenses (4)	-	944 915
Employee related costs (4)	-	849 065
Repairs and maintenance (4)	-	62 442
Other income (4)	-	31 784
Interest paid (4)	-	928
Dividends received (4)	-	(25 251)
Property rates (6)	-	(128 850)
Service charges (6)	-	1 553 428
Repairs and maintenance (8)	-	3 166 668
Depreciation expense (9)	-	333 417
Impairment losses (9)	-	(92 201 052)
Finance cost (10)	-	(1 833 158)
Repairs and maintenance (10)	-	39 211
Finance cost (11)	-	118 892
General expenses (11)	-	551 978

42. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Item 1 - Other receivables from non-exchange transactions	-	1 211 273
Item 2 - Receivables from non-exchange transactions	-	(1 211 273)

Change in comparative figures was due to a change in the caseware template and disclosure notes.

43. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the finance department under policies approved by the accounting officer. The Department identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	1 802 659	2 038 935	4 314 145	-
Trade and other payables	118 815 370	-	-	-

At 30 June 2015	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	1 802 659	6 353 080	-	-
Trade and other payables	92 900 767	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

43. Risk management (continued)

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - other	- %	10 939 750	-	-	-	-
Trade and other receivables - consumers	- %	252 609 985	-	-	-	-
Long-term debtor	1,00 %	8 014	814	8 014	8 014	185 654
Cash in current banking institutions	5,00 %	886 206	-	-	-	-
Trade and other payables	- %	118 815 370	-	-	-	-
Borrowings	16,00 %	1 802 659	2 038 935	1 568 780	1 568 780	1 176 585

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality.

The value of shares depends on the share price at year end.

44. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1 023 045 687 and that the municipality's total assets exceed its liabilities by R 1 023 045 687.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- The significant increase in accounts payable of R25 914 603 (2015: R41 359 420);
- The amount due to Eskom for the current year amounts to R63 777 928 (2015: R53 608 863);
- The creditors are not paid within 30 days as required by the MFMA;
- Debt collection period has not improved during the current financial year;
- The provision for doubtful debts have been estimated at R177 565 081 (2015: R175 056 330). This equates to approximately 70% of gross outstanding debtors (2015: 80%);
- As at 30 June 2016 the municipality's current liabilities amounted to R115 951 963 (2015: R94 698 489), whilst the current assets amounted to R87 776 334 (2015: R59 305 461).

45. Unauthorised expenditure

	2016	2015
Opening balance	131 838 000	-
Current year unauthorised expenditure: Operating expenditure	36 493 000	131 838 000
Less: Approved by Council	(131 838 000)	-
	36 493 000	**131 838 000**

The municipality is currently investigating these unauthorised expenditure. The investigation will be carried out in line with the guidance provided in the MFMA circular 68 and other applicable legislation.

The outcome of these investigations will be presented to council.

Figures in Rand	2016	2015

46. Fruitless and wasteful expenditure

Opening balance	5 343 579	269 862
Fruitless and wasteful expenditure	9 986 761	5 832 840
Less: Written off by council - Prior year	(5 343 559)	(269 862)
Less: Written off by council - Current year	(3 764 526)	(1 623 068)
Adjustment to prior year	-	1 133 807
	6 222 255	**5 343 579**

The Fruitless & Wasteful Expenditure amounting to R6 035 051 has already been investigated and the report will be tabled before the council on the 30th of August 2016 for condonement. However, the results of the investigations revealed that out of R6 035 051, there is an amount of R22 622 that must be recovered from the liable municipal officials. The majority of the fruitless and wasteful expenditure incurred was the result of interest levied by Eskom on their outstanding account.

47. Irregular expenditure

Opening balance	27 104 234	17 340 177
Add: Irregular Expenditure - current year (Non-compliance to SCM policy)	2 256 449	32 029 652
Add: Irregular Expenditure - current year (Identified during audit process)	21 535 134	-
Add: Irregular Expenditure - prior year (Identified in current year)	376 745	-
Less: Amounts written off by council or condoned - Current year	(846 466)	(4 925 418)
Less: Amounts written off by council or condoned - Prior years	(27 104 234)	(17 340 177)
	23 321 862	**27 104 234**

Analysis of expenditure awaiting condonation

Current year: SCM processes	1 786 728	7 052 105
Current year: SCM deviations	-	1 810 970
Prior year	-	757 281
Identified during audit process	21 535 134	17 483 878
	23 321 862	**27 104 234**

The Irregular Expenditure amounting to R1 786 728.10 has already been investigated and the report will be tabled before the council on 30 August 2016 for condonement.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year fee	770 060	760 889
Amount paid - current year	(770 060)	(760 889)
	-	**-**

Audit fees

Opening balance	4 081 292	102 266
Current year fee	5 335 548	4 750 297
Amount paid - current year	(9 113 247)	(771 271)
	303 593	**4 081 292**

PAYE and UIF

Opening balance	2 260 477	2 260 477
Current year fee	9 247 695	6 483 282
Amount paid - current year	(10 747 235)	(6 483 282)
	760 937	**2 260 477**

Figures in Rand	2016	2015

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

	2016	2015
Opening balance	1 461 725	1 406 047
Current year fee	12 998 244	17 071 396
Amount paid - current year	(14 459 969)	(17 015 718)
	-	**1 461 725**

VAT

	2016	2015
VAT payable	113 447	302 661

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor N.J Thaise	1 589	1 974	3 563
Councillor P.N Nakalebe	206	-	206
Councillor J Machakela	9 613	5 742	15 355
Councillor B.M Sani	1 325	763	2 088
Councillor K.I Tigeli	5 425	2 339	7 764
Councillor D.T Molefe	2 098	11 992	14 090
Councillor P.P Raboko	1 804	13 030	14 834
Councillor M.C Chomane	3 665	2 689	6 354
Councillor T Halse	2 067	-	2 067
Councillor L.P Moletsane	3 209	19 691	22 900
	31 001	**58 220**	**89 221**

30 June 2015	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor M.A Majara	728	681	1 409
Councillor M.A Malakane	3 087	1 152	4 239
Councillor Y.J Jacobs	176	300	476
Councillor M.C Chomane	1 183	1 253	2 436
Councillor V Raboko	1 377	11 862	13 239
Councillor C.J Roberts/Thaisi	4 226	3 634	7 860
Councillor D.T Molefe	11 611	7 240	18 851
Councillor K.I Tigeli	1 167	6 646	7 813
Councillor M Sebotsa	406	-	406
Councillor D.B Holmes	206	3 579	3 785
Councillor B.M Sani	1 143	4 224	5 367
Councillor S.D Ntsepe	627	-	627
Councillor P.N Seoe	345	-	345
Councillor E Kouveldt	362	-	362
	26 644	**40 571**	**67 215**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

Figures in Rand	2016	2015

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2016	Highest outstanding amount	Aging (in days)
Councillor L.P Moletsane	18 651	-
Councillor P.P Raboko	11 897	-
Councillor J Machakela	4 980	-
Councillor M.C Chomane	1 959	-
Councillor K.I Tigeli	1 700	-
Councillor N.J Thaise	1 659	-
Councillor B.M Sani	600	90
	41 446	**90**

30 June 2015	Highest outstanding amount	Aging (in days)
Councillor M.C Chomane	710	181
Councillor M Nakalebe	318	181
Councillor V Raboko	12 384	365
Councillor C.J Jacobs	25 144	181
Councillor P Molefe	5 945	91
Councillor K.I Tigeli	8 732	365
Councillor P.N Seoe	4 313	365
Councillor S.D Ntsepe	339	181
Councillor M.A Majara	25 413	365
	83 298	**2 275**

49. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	6 288 552	6 286 562

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Deviations totalling R1 500 882, were incurred and reported during the financial year in accordance with the aforementioned legislative requirements. These consisted of deviations for emergency cases (i.e. 30 transactions relating to pipe and sewer bursts and water pump repairs) totalling R381 125 and procurement from sole providers (75 transactions relating to strips and quotes) amounting to R1 119 757.

Figures in Rand	2016	2015

51. Contingent liabilities

Pending claims:		
Van As J - damage to his property and for alternative lodging	1 195 734	1 125 734
Lovedal dam - negotiations and interim court interdict on water supply from the dam	1 320 000	800 000
Zanoxolo & Nandipha Jacobs - damages caused by veldt fires	2 685 553	2 600 553
Barnard & Venter attorneys - conduct of serving councillor	-	1
Christoffel Beukman - court application to compel the municipality to disclose approved building documents	-	58 991
Ladybrand Land Invasion - eviction of illegal occupiers of land at extension 5, Ladybrand	-	1
Professor FP van Straaten - claim against the Municipality for loss due to impounding of animals	171 829	-
LM Diau - urgent interdict to return impounded cattle	55 000	-
Registration of subdivision Westville: Tweespruit	50 000	-
Tania Halse - investigating the conduct	25 000	-
Leon Mare: RGF Kriel	20 000	-
Water and sanitation	2 530 924	-
Department of Labour	28 000	-
Legal advice: various erven	45 000	-
	8 127 040	**4 585 280**

Litigation is in process against the municipality that could result in possible contingent liabilities of R8 127 031 (2015: R 4 585 280).

52. Distribution losses

The estimated electricity and water losses suffered by the municipality is as follows:		
Electricity	11 805 174	7 705 829
Water	1 104 573	3 974 399
	12 909 747	**11 680 228**

Electricity losses - The Municipality purchased 42 778 301 (2015: 44 351 504) units during the financial year. The Municipality sold 28 670 951 (2015: 32 311 146) during the year and has calculated its distribution losses at an estimated 33% (2015: 27%) at an average unit cost of R0.84 per unit (2015: R0.64 per unit). The main reason for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering.

Water losses - The Municipality purchased 4 216 842 units during the financial year, of which a total of 3 230 616 units were billed. This represents a loss of 986 226 units at an estimated 23% (2015: 28.9%) at a cost of R1.12 per unit.

53. Budget differences

Material differences between budget and actual amounts

53. Budget differences (continued)

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

Statement of Financial Performance:

Service charges: In order to improve the Municipality's financial situation, management embarked on a process whereby controls have been put into place to ensure all service are charged. The planned approach was to ensure that the service charges revenue increases. Although the process is an on-going process, the desired and expected results were not achieved.

Rental of facilities and equipment: More revenue was generated from rental than budgeted for. This is due to rental increases being implemented and controls to ensure all rental charges are levied.

Other income: The significant increase in relation to the budgeted figure is due to insurance claims amounting to R2 363 672 (2015: R7 798), which was not expected.

Dividends received: More dividends were received from the OK and Old Mutual listed investments. As this revenue is not controlled by the Municipality and dependant on the results of the aforementioned companies, the amount budgeted was less then the actual amount received.

Government grants and subsidies: The Municipality was the recipient of various grants in-kind. This grants were in the form of infrastructure assets being constructed on behalf of the Municipality. As these grants are not published before-hand, these were not budgeted for.

Public contributions and donations: The Municipality was the recipient of various other movables, which were not budgeted for.

Increase / (decrease) in provisions: As this is a "non-cash flow" item, the Municipality did not separately budget for the movement.

Depreciation and amortisation: Due to "backlog" depreciation and the implementation of the Standards of GRAP, the Municipality only budgets for recently purchased assets and does not take into account assets which existed before the adoption and implementation of GRAP.

Finance cost: Management only budgeted for interest to be paid on the bank accounts and the DBSA loan. Management did not provide for any interest to be levied on outstanding accounts (as these are fruitless and wasteful).

Impairment loss (bad debts): Due to debts written-off in the previous and current financial years, the movement in the provision for doubtful debt was significantly lower than what was expected / budgeted for.

Repairs and maintenance: Due to cost cutting processes, management was able to save significantly on the repairs and maintenance expenses. This was the result of SCM processes being implemented and budget control measures.

Contracted services: The Municipality did not expect to incur contracted services during the year.

Transfers and subsidies: This represents the subsidies provided to the indigent debtors and were not separately provided for.

General expenses: Due to cost cutting processes, management was able to save significantly on the general expenses. This was the result of SCM processes being implemented and budget control measures.

Loss on disposal of assets: During the year a vehicle was written-off, which was not expected.

Fair value adjustments: This represents the fair value adjustment to the investment property and listed shares. As this represents a "non-cash flow" movement, management did not provide / budget for it.

Statement of Financial Position:

Inventories: Normally, inventory is an immaterial balance to the Statement of Financial Position. All land was however verified during the year, resulting in specific properties to be accounted for as property-held-for-sale in terms of GRAP. This was therefore not budgeted for.

53. Budget differences (continued)

Receivables from exchange and non-exchange transactions: Management does not separately provide for receivables. The budgeted balance represents the gross balance and the effect of the impairment provision was not taken into account. In addition to this, as previously stated, the desired results in respect of the service charges were not achieved.

Cash and cash equivalents: The Municipality is experiencing financial difficulties and as a result thereof, the budgeted cash balances were not achieved.

Property, plant and equipment: Due to the issues experienced in the past, Management embarked on a process to identity, verify and correctly classify and cost all immovable assets, including investment property. The results of the project was unknown at the time of submission of the budget, and therefore no accurate balance could be budget for.

Other financial assets: The fair value gain on the listed investments exceeded management's expectations.

Other financial liabilities: The Municipality expected to obtain new financing during the year, which did not realise.

Payables from exchange transactions: Due to the Municipality's financial difficulties, it is not able to meet its short term commitments and therefore the desired budgeted results cannot be achieved.

VAT payable: No balance was budgeted for at yearend as the expectation was that the amount would be paid in full.

Consumer deposits: More consumer deposits were received then budgeted for.

Appendix A: Schedule of External Loans

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2015	Received during the Period	Redeemed / Written off during Period	Balance at 30 June 2016	Other costs in accordance with MFMA
	R				R	R	R	R	R
ANNUITY LOANS									
DBSA	520,000	16.32%	61001843	2017/06/03	11,441.78	-	(5,273.36)	6,168.42	-
DBSA	6,275,120	0.00%	61007338	2021/03/31	6,275,119.95	-	-	6,275,119.95	-
								-	
Total Annuity Loans	**6,795,119.95**				**6,286,561.73**	**-**	**(5,273.36)**	**6,281,288.37**	**-**

ANNUITY LOANS:
DBSA Loan (61001843):
The loan bears interest at 16.32% per annum and will be repaid in the next financial year.

DBSA Loan (61007338):
The Municipality entered into a loan agreement with DBSA on 26 May 2010. In terms of the agreement, DBSA gave the Municipality a capital loan amounting to R6 275 120. The loan agreement has reached its maturity and the Municipality and the DBSA reached the following agreement: (i) The total outstanding payments as at 31 July 2016 would amount to R1 880 619; (ii) The outstanding debt will be repaid in 4 equal repayments; and (iii) The first payment is due on 30 November 2016 and the debt obligation will not accrue interest during this time.

Note: The rates of interest payable on the above structured loans are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

Appendix B: Analysis of Property, Plant and Equipment

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying
	Opening Balance	Additions	Transfer	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R
Land and Buildings										
Land	348,583,035	-	-	-	348,583,035	-	-	-	-	348,583,035
Buildings	79,495,119	12,543,456	-	(1,281,519)	90,757,056	23,552,923	4,399,974	(641,748)	27,311,150	63,445,906
Total	**428,078,154**	**12,543,456**	**-**	**(1,281,519)**	**439,340,091**	**23,552,923**	**4,399,974**	**(641,748)**	**27,311,150**	**412,028,941**
Infrastructure										
Electricity										
Electricity Network	41,473,135	1,652,632	-	(984,372)	42,141,394	10,148,195	3,366,826	(637,436)	12,877,585	29,263,809
Roads										
Roads and Stormwater Network	453,878,709	8,937,859	12,626,720	-	475,443,288	189,957,404	28,512,449	-	218,469,852	256,973,435
Solid Waste										
Landfill Sites	7,257,056	-	-	-	7,257,056	1,697,297	56,696	-	1,753,993	5,503,063
Sanitation										
Sewer Network	158,486,768	6,071,186	-	-	164,557,954	22,078,242	5,352,658	-	27,430,901	137,127,053
Water										
Water Network	182,132,573	-	1,747,459	(79,958)	183,800,074	49,730,087	7,557,609	(68,828)	57,218,869	126,581,206
Capital work-in-progress										
Work-in-progress	29,960,616	32,315,014	(14,374,179)	-	47,901,451	-	-	-	-	47,901,451
Total	**873,188,856**	**48,976,690**	**-**	**(1,064,330)**	**921,101,217**	**273,611,226**	**44,846,237**	**(706,263)**	**317,751,200**	**603,350,017**
Leased Assets										
Office Equipment	3,620,527	-	-	(3,620,527)	-	3,617,221	3,306	(3,620,527)	-	-
Total	**3,620,527**	**-**	**-**	**-**	**-**	**3,617,221**	**3,306**	**-**	**-**	**-**
Other Assets										
Computer Equipment										
Computer Hardware Including Operating Systems	619,795	699,735	-	-	1,319,530	301,546	218,826	-	520,372	799,158
Furniture And Office Equipment										
Cabinets and Cupboards	1,327,271	-	-	-	1,327,271	529,048	133,990	-	663,038	664,233
Chairs	689,703	15,780	-	-	705,483	260,277	70,012	-	330,289	375,194
Tables and Desks	760,397	-	-	-	760,397	298,849	76,040	-	374,889	385,508
Machinery and Equipment										
Office Machines	823,066	238,715	-	-	1,061,780	457,848	132,282	-	590,131	471,649
Lawn Mowers	157,912	110,000	-	-	267,912	83,132	71,041	-	154,173	113,739
Compressors	727,842	1,500	-	-	729,342	368,205	93,368	-	461,573	267,769
Farm Equipment	204,828	28,091	-	-	232,919	89,006	31,700	-	120,706	112,214
Laboratory Equipment	30,924	120,000	-	-	150,924	16,278	20,309	-	36,587	114,337

Appendix B: Analysis of Property, Plant and Equipment

Description	Cost / Revaluation Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Accumulated Depreciation / Impairment Opening Balance	Additions	Disposals	Closing Balance	Carrying Value
	R	R	R	R	R	R	R	R	R	R
Other Assets										
Machinery and Equipment										
Other Fire Fighting Equipment	24,206	7,203	-	-	31,409	6,534	1,693	-	8,227	23,182
Air Conditioners	177,232	-	-	-	177,232	101,804	25,319	-	127,123	50,109
Radio Equipment	1,030	-	-	-	1,030	516	129	-	644	386
Telecommunication Equipment	10,415	2,105	-	-	12,520	2,083	2,157	-	4,240	8,280
Irrigation Systems	21,185	21,172	-	-	42,357	74	2,750	-	2,824	39,533
Conveyors	-	195,000	-	-	195,000	-	8,584	-	8,584	186,416
Transport Assets										
Tractors	2,099,725	-	-	-	2,099,725	539,044	140,581	-	679,625	1,420,100
Ordinary Motor Vehicles	3,072,560	-	-	(107,879)	2,964,681	1,708,113	437,165	(76,233)	2,069,045	895,636
Trucks and Light Delivery Vehicles	3,028,538	-	-	-	3,028,538	1,659,098	432,648	-	2,091,747	936,791
Graders	4,523,167	-	-	-	4,523,167	972,613	301,544	-	1,274,158	3,249,009
Fire Engines	145,200	-	-	-	145,200	29,179	7,260	-	36,439	108,761
Motor Cycles	5,920	1,400	-	-	7,320	2,993	1,109	-	4,103	3,217
Total	**18,450,913**	**1,440,701**	**-**	**(107,879)**	**19,783,734**	**7,426,239**	**2,208,507**	**(76,233)**	**9,558,514**	**10,225,220**
Total	**1,323,338,451**	**62,960,846**	**-**	**(2,453,728)**	**1,380,225,041**	**308,207,610**	**51,458,025**	**(1,424,244)**	**354,620,864**	**1,025,604,178**

Mantsopa Local Municipality

Financial Statement for the year ended 30 June 2016

Appendix C: Segmental Analysis of Property, Plant and Equipment

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Executive and Council	3,761,516	345,374	-	(1,011,590)	3,095,300	3,693,649	56,959	(442,575)	3,308,032	(212,732)
Finance and Administration	1,580,037	333,130	-	-	1,913,167	720,232	251,195	-	971,427	941,740
Corporate Services	1,252,734	172,591	-	-	1,425,325	556,926	176,592	-	733,518	691,807
Community and Social Services	1,082,011	487,348	-	(269,929)	1,299,430	450,150	186,088	(199,172)	437,066	862,364
Planning and Development (LED)	19,125	-	-	-	19,125	8,814	2,205	-	11,018	8,107
Properties	435,961,712	12,543,456	2,981,525	-	451,486,693	23,552,923	4,399,974	-	27,952,898	423,533,795
Technical Services	14,376,018	102,257	-	(107,879)	14,370,396	5,613,690	1,538,775	(76,233)	7,076,232	7,294,163
Roads and Transport	466,421,402	21,564,579	2,903,175	-	490,889,155	189,957,404	28,512,449	-	218,469,852	272,419,303
Electricity	41,473,135	1,652,632	-	(984,372)	42,141,394	10,148,195	3,366,826	(637,436)	12,877,585	29,263,809
Waste Management	171,293,419	6,071,186	-	-	177,364,605	23,775,540	5,409,354	-	29,184,894	148,179,711
Water	186,117,342	1,747,459	12,056,137	(79,958)	199,840,980	49,730,087	7,557,609	(68,828)	57,218,869	142,622,112
Total	**1,323,338,450**	**45,020,012**	**17,940,837**	**(2,453,728)**	**1,383,845,570**	**308,207,610**	**51,458,025**	**(1,424,244)**	**358,241,391**	**1,025,604,179**

Appendix D: Segmental Statement of Financial Performance

2015 Actual Income	2015 Actual Expenditure	2015 Surplus/ (Deficit)	Description	2016 Actual Income	2016 Actual Expenditure	2016 Surplus/ (Deficit)
R	R	R		R	R	R
16,394,324	(22,446,226)	(6,051,902)	Executive and Council	15,058,288	(22,022,470)	(6,964,182)
91,522,728	(48,083,751)	43,438,977	Finance and Administration	93,502,641	(41,957,172)	51,545,469
6,463,489	(6,579,739)	(116,250)	Planning and Development	6,417,411	(6,271,109)	146,302
-	-	-	Health	-	-	-
3,569,661	(3,739,358)	(169,698)	Community and Social Services	3,692,046	(4,601,634)	(909,588)
1,865,105	(1,560,167)	304,938	Housing	1,455,819	(1,705,961)	(250,142)
3,387,739	(3,517,155)	(129,417)	Public Safety	3,742,597	(3,902,301)	(159,704)
1,062,167	(4,781,508)	(3,719,341)	Sport and Recreation	8,054,215	(5,707,527)	2,346,688
-	-	-	Environmental Protection	-	-	-
28,554,613	(58,896,718)	(30,342,105)	Waste Management	42,405,090	(34,265,791)	8,139,298
18,585,273	(52,527,574)	(33,942,301)	Roads and Transport	27,030,122	(33,319,387)	(6,289,265)
35,752,371	(22,929,504)	12,822,867	Water	47,147,975	(54,324,630)	(7,176,655)
41,061,762	(53,953,253)	(12,891,490)	Electricity	39,338,961	(40,065,702)	(726,741)
-	-	-	Other	-	-	-
248,219,232	**(279,014,953)**	**(30,795,721)**	**Total**	**287,845,164**	**(248,143,685)**	**39,701,479**

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Description	2015/2016 Actual	2015/2016 Budget	2015/2016 Variance	2015/2016 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	%	
REVENUE					
Property Rates	12,729,373	12,993,881	(264,508)	-2%	No significant variance identified.
Property Rates - Penalties imposed and collection charges	-	-	-	0%	
Fines	522,550	590,400	(67,850)	-11%	No significant variance identified.
Licences and Permits	-	-	-	0%	
Government Grants and Subsidies	144,020,150	117,207,000	26,813,150	23%	The Municipality was the receipent of various grants in-kind. This grants were in the form of infrastructure assets being constructed on behalf of the Municipality. As these grants are not published before-hand, these were not budgeted for.
Dividends Received	32,354	20,000	12,354	62%	More dividends were received from the OVK and Old Mutual listed investments. As this revenue is not controlled by the Municipality and dependant on the results of the aforementioned companies, the amount budgeted was less then the actual amount received.
Donations Received	2,000	2,000	-	0%	The Municipality was the receipent of various other movables, which were not budgeted for.
Service Charges	94,602,816	115,057,426	(20,454,610)	-18%	In order to improve the Municipality's financial situtaion, management embarked on a process whereby controls have been put into place to ensure all service are charged. The planned approach was to ensure that the service charges revenue increases. Although the process is an on-going process, the desired and expected results were not achieved.
Rental of Facilities and Equipment	-	1,226,522	(1,226,522)	-100%	More revenue was generated from rental than budgeted for. This is due to rental increases being implemented and controls to ensure all rental charges are levied.
Interest Earned - External investments	719,653	536,000	183,653	34%	More interest was generated through better investment polcies being applied.
Interest Earned - Outstanding Debtors	19,263,378	25,000,000	(5,736,622)	-23%	Refer to service charges.
Other Income	6,384,809	3,026,562	3,358,247	111%	The significant increase in relation to the budgeted figure is due to insurance claims amounting to R2 363 672 (2015: R7 798), which was not expected.
Other Gains on Continued Operations	9,568,081	-	9,568,081	100%	This is a non-cash flow item and was therefore not budgeted for.
Sale of Land	-	102,500	(102,500)	-100%	A number of erven were sold, exceeding management's expectatopns.
Total Revenue	**287,845,164**	**275,762,291**	**4,901,045**	**2%**	
EXPENDITURE					
Employee Related Costs	78,534,214	75,897,195	2,637,019	3%	No significant variance identified.
Remuneration of Councillors	5,797,391	6,290,310	(492,919)	-8%	No significant variance identified.
Collection Costs	-	-	-	0%	
Depreciation	50,444,422	4,251,577	46,192,845	1086%	Due to "backlog" depreciation and the implementation of the Standards of GRAP, the Municipality only budgets for recently purchased assets and does not take into account assets which existed before the adoption and implementation of GRAP.
Impairment Losses	1,013,605	-	1,013,605	100%	No significant variance identified.
Increase / (Decrease) in Provisions	(19,145,000)	-	(19,145,000)	100%	This is a non-cash flow item and was therefore not budgeted for.
Debt Impairment	42,820,437	47,821,827	(5,001,390)	-10%	No significant variance identified.
Lease Rentals on Operating Lease	188,114	-	188,114	100%	Budgeted for under general expenses
Repairs and Maintenance	4,001,170	8,837,488	(4,836,318)	-55%	Due to cost cutting processes, management was able to save significantly on the repairs and maintenance expenses. This was the result of SCM processes being implemented and budget control measures.
Interest Paid	14,511,835	3,400	14,508,435	426719%	Management only budgeted for interest to be paid on the bank accounts and the DBSA loan. Management did not provide for any interest to be levied on outstanding accounts (as these are fruitless and wasteful).
Bulk Purchases	37,497,338	37,475,600	21,738	0%	No significant variance identified.
Contracted Services	985,322	3,000,000	(2,014,678)	-67%	Budgeted for under general expenses
Grants and Subsidies Paid	1,149,349	-	1,149,349	100%	Budgeted for under general expenses
General Expenses	29,316,003	48,779,116	(19,463,113)	-40%	Due to cost cutting processes, management was able to save significantly on thegeneral expenses. This was the result of SCM processes being implemented and budget control measures.
Other Losses on Continued Operations	-	-	-	0%	This represents the fair value adjustment to the investment property and listed shares. As this represents a "non-cash flow" movement, management did not provide / budget for it.
Loss on Disposal of Property, Plant and Equipment	1,029,485	-	1,029,485	100%	During the year a vehicle was written-off, which was not expected.
Total Expenditure	**248,143,685**	**232,356,513**	**31,153,913**	**14%**	
NET SURPLUS / (DEFICIT) FOR THE YEAR	**39,701,479**	**43,405,778**	**(26,252,868)**	**-130%**	

Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

Description	2015/2016 Actual	2015/2016 Under Construction	2015/2016 Total Additions	2015/2016 Budget	2015/2016 Variance	2015/2016 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	R	R	%	
Municipal Manager	-	-	-	6,000	(6,000)	-100%	The Municipality incurred more capital expenditure then initially budgeted for. This is mainly due to infrastructure asset being constructed, by way of grants in-kind, which the Municipality did not budget for. A number of necessary movable asset were also acquired.
Council	345,374	-	345,374	20,000	325,374	1627%	
Financial Services	333,130	-	333,130	18,000	315,130	1751%	
Corporate Services	172,591	-	172,591	1,503,250	(1,330,659)	-89%	
Community Services	-	-	-	5,000	(5,000)	-100%	
Technical Services	49,223,433	12,886,250	62,109,683	40,682,600	21,427,083	53%	
Total	**50,074,528**	**12,886,250**	**62,960,779**	**42,234,850**	**20,725,929**	**49%**	

Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act

Name of Grant	Name of Organ of State or Municipal Entity	Opening Balance	Total Receipts	Total Expenses	Net Grant	Grants and Subsidies Delayed / Withheld	Compliance to Revenue Act	Reason for Non-compliance
			Total	Total	Total	Total	Yes / No	
Integrated National Electrification Programme (INEP)	Nat Treasury	-	3,000,000	2,127,242	872,758	-	Yes	N/a
Equitable Share	Nat Treasury	-	69,174,000	69,174,000	-	-	Yes	N/a
Financial Management Grant (FMG)	Nat Treasury	-	1,675,000	1,675,000	-	-	Yes	N/a
Municipal Systems Improvement Grant (MSIG)	Nat Treasury	-	930,000	930,000	(0)	-	Yes	N/a
Expanded Public Works Programme (EPWP)	Nat Treasury	-	1,000,000	1,000,000	-	-	Yes	N/a
Department of Water Affairs	Provincial	-	15,189,395	15,189,395	-	-	Yes	N/a
Energy Efficiency Development Grant (EEDG)	Nat Treasury	223,401	-	223,401	-	-	Yes	N/a
Municipal Infrastructure Grant (MIG)	Nat Treasury	-	19,428,000	19,428,000	(0)	-	Yes	N/a
Grant-in-kind: Thusanong, Mandela, Flamingo and New Platberg Parks	Provincial	-	6,933,206	6,933,206	-	-	Yes	N/a
Grant-in-kind: Various Roads	Provincial	-	7,315,005	7,315,005	-	-	Yes	N/a
Grant-in-kind: Electrification of Platberg	Provincial	-	1,652,632	1,652,632	-	-	Yes	N/a
Grant-in-kind: New Platberg Sewer Pump Station	Provincial	-	6,071,186	6,071,186	-	-	Yes	N/a
Grant-in-kind: Buy Back Centre	Provincial	-	7,246,498	7,246,498	-	-	Yes	N/a
Grant-in-kind: Thabo Mofutsanyana District Municipality	District	-	5,054,586	5,054,586	-	-	Yes	N/a
Total Grants and Subsidies Received		**223,401**	**144,669,508**	**144,020,151**	**872,758**	**-**		

Mantsopa Local Municipality
Financial Statement for the year ended 30 June 2016

Appendix G(1): Budgeted Financial Performance (Revenue and Expenditure by Standard Classification)

Description	2016										2015
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R
REVENUE - STANDARD											
Governance and Administration:											
Executive and Council	17,995,797	(275,530)	17,720,267	-	17,720,267	15,058,288	-	2,661,980	84.98%	83.68%	16,394,324
Budget and Treasury Office	64,424,881	1,175,779	65,600,660	-	65,600,660	86,169,228	-	(19,509,783)	131.35%	133.75%	79,567,074
Corporate Services	8,001,500	-	8,001,500	-	8,001,500	7,333,412	-	668,088	91.65%	91.65%	11,955,654
Community and Public Safety:											
Community and Social Services	3,773,695	400,464	4,174,159	-	4,174,159	3,684,046	-	490,113	88.26%	97.62%	3,569,661
Sport and Recreation	1,189,779	(35,284)	1,154,495	-	1,154,495	8,062,215	-	(6,899,720)	698.33%	677.62%	1,062,167
Public Safety	3,868,024	512,010	4,380,034	-	4,380,034	3,742,597	-	637,437	85.45%	96.76%	3,387,739
Housing	1,814,534	(318,418)	1,496,116	-	1,496,116	1,455,819	-	40,297	97.31%	80.23%	1,865,105
Economic and Environmental Services:											
Planning and Development	7,627,618	28,800	7,656,418	-	7,656,418	6,417,411	-	1,239,007	83.82%	84.13%	6,463,489
Road Transport	14,285,716	-	14,285,716	-	14,285,716	27,030,122	-	(7,689,820)	189.21%	189.21%	23,639,859
Trading Services:											
Electricity	45,409,564	5,496,436	50,906,000	-	50,906,000	39,338,961	-	13,694,281	77.28%	86.63%	41,061,762
Water	61,846,735	(2,262,235)	59,584,500	-	59,584,500	47,147,975	-	12,436,525	79.13%	76.23%	35,752,371
Waste Water Management	26,541,744	(3,356,456)	23,185,288	-	23,185,288	24,737,402	-	(1,552,114)	106.69%	93.20%	18,118,248
Waste Management	19,569,166	(1,952,028)	17,617,138	-	17,617,138	17,667,688	-	(58,550)	100.29%	90.28%	5,381,779
Total Revenue - Standard	**276,348,753**	**(586,462)**	**275,762,291**	**-**	**275,762,291**	**287,845,164**	**-**	**(3,842,260)**	**104.38%**	**104.16%**	**248,219,232**
EXPENDITURE - STANDARD											
Governance and Administration:											
Executive and Council	24,277,869	351,141	24,629,010	-	24,629,010	21,833,433	-	3,761,707	88.65%	89.93%	22,446,226
Budget and Treasury Office	44,686,619	6,713,143	51,399,762	-	48,399,762	34,319,720	-	13,879,175	70.91%	76.80%	35,080,129
Corporate Services	8,904,169	(1,133,142)	7,771,027	-	7,771,027	7,637,452	-	(20,226)	98.28%	85.77%	13,003,622
Community and Public Safety:											
Community and Social Services	3,773,695	400,464	4,174,159	-	4,174,159	4,582,634	-	188,206	109.79%	121.44%	3,739,358
Sport and Recreation	5,673,954	(1,062,739)	4,611,215	-	4,611,215	5,726,527	-	(2,214,962)	124.19%	100.93%	4,781,508
Public Safety	3,868,024	512,010	4,380,034	-	4,380,034	3,902,301	-	(74,898)	89.09%	100.89%	3,517,155
Housing	1,814,534	(318,418)	1,496,116	-	1,496,116	1,705,961	-	(739,735)	114.03%	94.02%	1,560,167
Economic and Environmental Services:											
Planning and Development	3,930,435	1,283,591	5,214,026	-	5,214,026	5,871,549	-	(1,074,792)	112.61%	149.39%	6,579,739
Road Transport	13,095,095	(4,448,356)	8,646,739	-	8,646,739	33,319,387	-	(26,162,287)	385.34%	254.44%	52,527,574
Trading Services:											
Electricity	43,951,776	(270,031)	43,681,745	-	43,681,745	40,654,298	-	2,637,829	93.07%	92.50%	53,953,253
Water	32,738,288	2,804,726	35,543,014	-	35,543,014	54,324,630	-	(20,961,162)	152.84%	165.94%	22,929,504
Waste Water Management	24,379,433	(1,324,314)	23,055,119	-	23,055,119	23,426,206	-	(1,975,016)	101.61%	96.09%	34,055,929
Waste Management	18,651,541	(896,994)	17,754,547	-	17,754,547	10,839,585	-	2,661,031	61.05%	58.12%	24,840,789
Total Expenditure - Standard	**229,745,432**	**2,611,081**	**232,356,513**	**-**	**229,356,513**	**248,143,686**	**-**	**(30,095,130)**	**108.19%**	**108.01%**	**279,014,953**
Surplus/(Deficit) for the year	**46,603,321**	**(3,197,543)**	**43,405,778**	**-**	**46,405,778**	**39,701,478**	**-**	**26,252,871**	**85.55%**	**85.19%**	**(30,795,721)**

Mantsopa Local Municipality
Financial Statement for the year ended 30 June 2016

Appendix G(2): Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)

Description		2016 Original Total Budget	2016 Budget Adjustments	2016 Final Adjustments Budget	2016 Shifting of Funds	2016 Final Budget	2016 Actual Outcome	2016 Unauthorised Expenditure	2016 Variance	2016 Actual Outcome as % of Final Budget	2016 Actual Outcome as % of Original Budget	2015 Restated Audited Outcome
		R	R	R	R	R	R	R	R	R	R	R
REVENUE BY VOTE												
Vote 1	Municipal Manager	10,505,797	(275,530)	10,230,267	-	10,230,267	7,568,888	-	2,661,380	73.99%	72.04%	9,434,324
Vote 2	Council	7,490,000	-	7,490,000	-	7,490,000	7,489,400	-	600	99.99%	99.99%	6,960,000
Vote 3	Financial Services	64,424,881	1,175,779	65,600,660	-	65,600,660	86,169,228	-	(20,568,568)	131.35%	133.75%	79,567,074
Vote 4	Corporate Services	8,001,500	-	8,001,500	-	8,001,500	7,333,412	-	668,088	91.65%	91.65%	11,955,654
Vote 5	Community Services	10,646,032	558,772	11,204,804	-	11,204,804	16,944,677	-	(5,739,874)	151.23%	159.16%	9,884,671
Vote 6	Technical Services	175,280,543	(2,045,483)	173,235,060	-	173,235,060	162,339,558	-	10,895,502	93.71%	92.62%	130,417,508
Total Revenue by Vote		**276,348,753**	**(586,462)**	**275,762,291**	**-**	**275,762,291**	**287,845,164**	**-**	**(12,082,873)**	**101.39%**	**101.18%**	**248,219,232**
EXPENDITURE BY VOTE												
Vote 1	Municipal Manager	10,505,797	(275,530)	10,230,267	-	10,230,267	8,491,180	-	1,739,088	83.00%	80.82%	9,678,442
Vote 2	Council	13,772,072	626,670	14,398,742	-	14,398,742	13,342,255	-	1,056,488	92.66%	96.88%	12,767,784
Vote 3	Financial Services	44,686,619	6,713,143	51,399,762	-	48,399,762	34,319,720	-	14,080,041	70.91%	76.80%	35,080,129
Vote 4	Corporate Services	8,904,169	(1,133,142)	7,771,027	-	7,771,027	7,637,452	-	133,575	98.28%	85.77%	13,003,622
Vote 5	Community Services	15,130,207	(468,683)	14,661,524	-	14,661,524	15,917,423	-	(1,255,899)	108.57%	105.20%	13,598,189
Vote 6	Technical Services	136,746,568	(2,851,378)	133,895,190	-	133,895,190	168,435,656	-	(34,540,466)	125.80%	123.17%	194,886,787
Total Expenditure by Vote		**229,745,432**	**2,611,081**	**232,356,513**	**-**	**229,356,513**	**248,143,686**	**-**	**(18,787,173)**	**108.19%**	**108.01%**	**279,014,953**
Surplus/(Deficit) for the year		**46,603,321**	**(3,197,543)**	**43,405,778**	**-**	**46,405,778**	**39,701,478**	**-**	**6,704,300**	**16.89%**	**14.39%**	**(30,795,721)**

Appendix G(3): Reconciliation of Budgeted Financial Performance

Description	2016										2015
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R
Revenue by Source											
Property Rates	13,849,595	(855,714)	12,993,881	-	12,993,881	12,729,373	-	264,508	97.96%	91.91%	12,566,527
Service Charges - Electricity	42,409,564	5,390,436	47,800,000	-	47,800,000	34,987,064	-	12,812,936	73.19%	82.50%	33,665,760
Service Charges - Water	37,646,736	723,264	38,370,000	-	38,370,000	31,943,003	-	6,426,997	83.25%	84.85%	25,556,180
Service Charges - Sanitation	21,441,744	(3,360,456)	18,081,288	-	18,081,288	17,263,085	-	818,203	95.47%	80.51%	18,106,205
Service Charges - Refuse	12,769,166	(1,963,028)	10,806,138	-	10,806,138	10,409,664	-	396,474	96.33%	81.52%	10,419,779
Rental of Facilities and Equipment	1,258,522	(32,000)	1,226,522	-	1,226,522	-	-	1,226,522	-	-	-
Licences and Permits	-	-	-	-	-	-	-	-	-	-	877
Interest Earned - External Investments	571,000	(35,000)	536,000	-	536,000	719,653	-	(183,653)	134.26%	126.03%	547,632
Interest Earned - Outstanding Debtors	25,000,000	-	25,000,000	-	25,000,000	19,263,378	-	5,736,622	77.05%	77.05%	22,214,556
Public Contributions and Donations	-	-	-	-	-	2,000	-	(2,000)	100.00%	100.00%	10,000
Dividends Received	20,000	-	20,000	-	20,000	32,354	-	(12,354)	161.77%	161.77%	52,301
Fines	574,200	16,200	590,400	-	590,400	522,550	-	67,850	88.51%	91.00%	535,620
Transfers Recognised - Operational	76,750,400	-	76,750,400	-	76,750,400	90,095,636	-	(13,345,236)	117.39%	117.39%	87,209,036
Other Revenue	601,226	2,427,336	3,028,562	-	3,028,562	6,384,809	-	(3,356,247)	210.82%	1061.96%	2,179,723
Gains on Disposal of PPE	-	102,500	102,500	-	102,500	-	-	102,500	-	(100.00)%	-
Other Gains on Operation	-	-	-		-	9,568,081	-	(9,568,081)	100.00%	100.00%	2,809,069
Total Revenue	**232,892,153**	**2,413,538**	**235,305,691**	**-**	**235,305,691**	**233,920,650**	**-**	**1,385,041**	**99.41%**	**100.44%**	**215,873,265**
Expenditure											
Employee Related Costs	73,027,932	2,869,263	75,897,195	-	75,897,195	78,534,214	-	(2,637,019)	103.47%	107.54%	68,411,382
Remuneration of Councillors	6,290,310	-	6,290,310	-	6,290,310	5,797,391	-	492,919	92.16%	92.16%	5,523,627
Increase / (Decrease) in Provisions	-	-	-	-	-	(19,145,000)	-	19,145,000	(100.00)%	(100.00)%	3,776,603
Impairment Loss	-	-	-	-	-	1,013,605	-	(1,013,605)	100.00%	100.00%	842,759
Depreciation and Asset Impairment	4,251,493	84	4,251,577	-	4,251,577	50,444,422	-	(46,192,845)	1186.49%	1186.51%	49,355,953
Finance Charges	-	3,400	3,400	-	3,400	14,511,835	-	(14,508,435)	426818.68%	100.00%	7,541,125
Lease Rentals on Operating Lease	-	-	-	-	-	188,114	-	(188,114)	100.00%	100.00%	-
Debt Impairment	50,819,898	(2,998,071)	47,821,827	-	47,821,827	42,820,437	-	5,001,390	89.54%	84.26%	60,961,546
Bulk Purchases	37,475,600	-	37,475,600	-	37,475,600	37,497,338	-	(21,738)	100.06%	100.06%	34,232,144
Other Materials	8,281,352	556,136	8,837,488	-	8,837,488	4,001,170	-	4,836,318	45.27%	48.32%	8,170,074
Contracted Services	3,000,000	-	3,000,000	-	-	985,322	-	(985,322)	100.00%	32.84%	3,132,263
Transfers and Grants	10,020,000	(10,020,000)	-	-	-	1,149,349	-	(1,149,349)	100.00%	11.47%	996,804
Other Expenditure	36,578,847	12,200,269	48,779,116	-	48,779,116	29,316,003	-	19,463,113	60.10%	80.14%	36,061,881
Loss with Disposal of Assets	-	-	-	-	-	1,029,485	-	(1,029,485)	100.00%	#DIV/0!	10,501
Total Expenditure	**229,745,432**	**2,611,081**	**232,356,513**	**-**	**229,356,513**	**248,143,685**	**-**	**(18,787,172)**	**108.19%**	**108.01%**	**279,016,662**
Surplus/(Deficit)	3,146,721	(197,543)	2,949,178	-	5,949,178	(14,223,035)	-	20,172,213	(239.08)%	(452.00)%	(63,143,397)
Transfers Recognised - Capital	43,456,600	(3,000,000)	40,456,600	-	40,456,600	53,924,514	-	(13,467,914)	133.29%	124.09%	32,347,672
Surplus/(Deficit) for the Year	**46,603,321**	**(3,197,543)**	**43,405,778**	**-**	**46,405,778**	**39,701,479**	**-**	**6,704,299**	**85.55%**	**85.19%**	**(30,795,725)**

Mantsopa Local Municipality

Financial Statement for the year ended 30 June 2016

Appendix G(4): Reconciliation of Budgeted Capital Expenditure

Description	2016										2015
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R
CAPITAL EXPENDITURE - VOTE											
Multi-year Expenditure											
Vote 1 - Municipal Manager	-	-	-	-	-	-	-	-	-	-	-
Vote 2 - Council	-	-	-	-	-	-	-	-	-	-	-
Vote 3 - Financial Services	-	-	-	-	-	-	-	-	-	-	-
Vote 4 - Corporate Services	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - Community Services	-	-	-	-	-	-	-	-	-	-	-
Vote 6 - Technical Services	-	-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Multi-year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Single-year Expenditure											
Vote 1 - Municipal Manager	58,000	(52,000)	6,000	-	6,000	-	-	(6,000)	-	-	-
Vote 2 - Council	98,000	(78,000)	20,000	-	20,000	345,374	-	325,374	1726.87%	352.42%	-
Vote 3 - Financial Services	-	18,000	18,000	-	18,000	333,130	-	315,130	1850.72%	(100.00)%	140,642
Vote 4 - Corporate Services	2,036,750	(533,500)	1,503,250	-	1,503,250	172,591	-	(1,330,659)	11.48%	8.47%	-
Vote 5 - Community Services	180,000	(175,000)	5,000	-	5,000	-	-	(5,000)	-	-	11,686,074
Vote 6 - Technical Services	44,206,600	(3,524,000)	40,682,600	-	40,682,600	62,109,683	-	21,427,083	152.67%	140.50%	80,927,007
Total Capital Expenditure - Single-year	**46,579,350**	**(4,344,500)**	**42,234,850**	**-**	**42,234,850**	**62,960,779**	**-**	**20,725,929**	**149.07%**	**135.17%**	**92,753,724**
Total Capital Expenditure - Vote	**46,579,350**	**(4,344,500)**	**42,234,850**	**-**	**42,234,850**	**62,960,779**	**-**	**20,725,929**	**149.07%**	**135.17%**	**92,753,724**
CAPITAL EXPENDITURE - STANDARD											
Governance and Administration:											
Executive and Council	156,000	(130,000)	26,000	-	26,000	345,374	-	319,374	1328.36%	221.39%	-
Budget and Treasury Office	-	18,000	18,000	-	18,000	333,130	-	315,130	1850.72%	(100.00)%	140,642
Corporate Services	2,036,750	(533,500)	1,503,250	-	1,503,250	172,591	-	(1,330,659)	11.48%	8.47%	-
Community and Public Safety:											
Community and Social Services	5,170,884	2,000	5,172,884	-	5,172,884	16,012,329	-	10,839,445	309.54%	309.66%	11,686,074
Public Safety	180,000	(175,000)	5,000	-	5,000	-	-	(5,000)	-	-	-
Economic and Environmental Services:											
Road Transport	13,285,716	-	13,285,716	-	13,285,716	24,569,941	-	11,284,225	184.94%	184.94%	8,382,005
Trading Services:											
Electricity	3,600,000	(600,000)	3,000,000	-	3,000,000	1,652,632	-	(1,347,368)	55.09%	45.91%	13,221,166
Water	22,000,000	(2,970,000)	19,030,000	-	19,030,000	13,803,596	-	(5,226,404)	72.54%	62.74%	6,933,259
Waste Management	150,000	44,000	194,000	-	194,000	6,071,186	-	5,877,186	3129.48%	4047.46%	52,390,577
Total Capital Expenditure - Standard	**46,579,350**	**(4,344,500)**	**42,234,850**	**-**	**42,234,850**	**62,960,779**	**-**	**20,725,929**	**149.07%**	**135.17%**	**92,753,724**
FUNDED BY:											
National Government	18,456,600	20,000,000	38,456,600	-	38,456,600	48,584,974	-	10,128,374	126.34%	263.24%	37,402,258
Provincial Government	25,000,000	(23,000,000)	2,000,000	-	-	-	-	-	-	-	-
Other Transfers and Grants	-	-	-	-	-	-	-	-	-	-	-
Transfers Recognised - Capital	43,456,600	(3,000,000)	40,456,600	-	38,456,600	48,584,974	-	10,128,374	26.34%	23.31%	37,402,258
Internally Generated Funds	3,122,750	(1,374,500)	1,748,250	-	1,748,250	14,375,805	-	12,627,555	822.30%	460.36%	55,351,466
Total Capital Funding	**46,579,350**	**(4,374,500)**	**42,204,850**	**-**	**40,204,850**	**62,960,779**	**-**	**22,755,929**	**156.60%**	**135.17%**	**92,753,724**

Mantsopa Local Municipality

Financial Statement for the year ended 30 June 2016

Appendix G(5): Reconciliation of Budgeted Cash Flows

Description	2016								2015
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Audited Outcome
	R	R	R	R	R	R	R	R	R
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Property rates, penalties and collection charges	10,000,000	-	10,000,000	10,000,000	6,359,073	(3,640,927)	63.59%	63.59%	12,437,677
Service charges	69,704,691	19,282,873	88,987,564	88,987,564	29,237,678	(59,749,886)	32.86%	41.95%	28,637,245
Other revenue	8,999,748	1,200,000	10,199,748	10,199,748	-	(10,199,748)	-	-	48,611,206
Government - Operating	76,750,400	-	76,750,400	76,750,400	96,981,756	20,231,356	126.36%	126.36%	81,703,357
Government - Capital	43,456,600	(3,000,000)	40,456,600	40,456,600	19,799,447	(20,657,153)	48.94%	45.56%	32,347,672
Interest	8,071,000	-	8,071,000	8,071,000	19,983,031	11,912,031	247.59%	247.59%	22,762,188
Dividends	20,000	-	20,000	20,000	32,354	12,354	161.77%	161.77%	52,301
Payments									
Suppliers and Employees	(169,936,083)	(18,994,785)	(188,930,868)	(188,930,868)	(139,797,964)	49,132,904	73.99%	82.27%	(130,523,480)
Finance Charges	-	-	-	-	(10,175,835)	(10,175,835)	-	-	(7,487,767)
Transfers and Grants	-	-	-	-	-	-	-	-	-
NET CASH FROM / (USED) OPERATING ACTIVITIES	**47,066,356**	**(1,511,912)**	**45,554,444**	**45,554,444**	**22,419,540**	**(23,134,904)**	**49.21%**	**47.63%**	**88,540,399**
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on Disposal of PPE	-	-	-	-	-	-	-	-	-
Decrease / (Increase) Other Non-current Receivables	-	-	-	-	6,010	6,010	-	-	5,955
Decrease / (Increase) in Non-current Investments	-	-	-	-	(48,149)	(48,149)	-	-	(217)
Payments									
Capital Assets	(47,079,350)	3,000,000	(44,079,350)	(44,079,350)	(28,687,666)	15,391,684	65.08%	60.93%	(87,699,138)
NET CASH FROM / (USED) INVESTING ACTIVITIES	**(47,079,350)**	**3,000,000**	**(44,079,350)**	**(44,079,350)**	**(28,729,805)**	**15,349,545**	**65.18%**	**61.02%**	**(87,693,400)**
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
New Loans raised	-	-	-	-	1,990	1,990	-	-	162,337
Payments									
Loans repaid	-	-	-	-	-	-	-	-	(1,151,090)
NET CASH FROM / (USED) FINANCING ACTIVITIES	**-**	**-**	**-**	**-**	**1,990**	**1,990**	**-**	**-**	**(988,753)**
NET INCREASE / (DECREASE) IN CASH HELD	**(12,994)**	**1,488,088**	**1,475,094**	**1,475,094**	**(6,308,277)**	**(7,783,371)**	**-**	**-**	**(141,754)**
Cash / Cash Equivalents at the Year begin:	5,000	(95,261)	(90,261)	(90,261)	7,197,621	7,287,882	(8074.23)%	145757.64%	7,339,375
Cash / Cash Equivalents at the Year end:	(7,994)	1,392,827	1,384,833	1,384,833	889,344	(495,489)	(35.78)%	6198.26%	7,197,621